# ANNUAL REPORT 2011

*Treating brain disorders*

# FINANCIAL HIGHLIGHTS

| Group | 2011 DKKm | 2010 DKKm | 2009 DKKm | 2008 DKKm | 2007 DKKm | 2011 EURm[1] | 2011 USDm[2] |
|---|---|---|---|---|---|---|---|
| Revenue | 16,007 | 14,765 | 13,747 | 11,572 | 11,171 | 2,148 | 2,987 |
| Research and development costs | 3,320 | 3,045 | 3,196 | 2,990 | 2,193 | 446 | 620 |
| Operating profit before depreciation and amortisation (EBITDA) | 4,628 | 4,393 | 3,728 | 3,418 | 3,611 | 621 | 864 |
| Profit from operations (EBIT) | 3,393 | 3,357 | 2,858 | 2,354 | 2,689 | 455 | 633 |
| Net financials | (96) | (68) | (192) | (28) | 65 | (13) | (18) |
| Profit for the year | 2,282 | 2,466 | 2,007 | 1,663 | 1,881 | 306 | 426 |
| Total assets | 20,534 | 18,005 | 17,127 | 12,526 | 12,230 | 2,762 | 3,574 |
| Equity | 12,776 | 11,122 | 8,803 | 7,511 | 7,089 | 1,719 | 2,224 |
| Cash flows from operating and investing activities | 929 | 2,462 | (2,040) | 2,193 | 1,610 | 125 | 173 |
| Investments in property, plant and equipment, gross | 419 | 383 | 258 | 229 | 474 | 56 | 73 |
| | % | % | % | % | % | % | % |
| EBITDA margin | 28.9 | 29.8 | 27.1 | 29.5 | 32.3 | 28.9 | 28.9 |
| EBIT margin | 21.2 | 22.7 | 20.8 | 20.3 | 24.1 | 21.2 | 21.2 |
| Return on capital employed | 25.3 | 27.6 | 28.0 | 30.0 | 34.6 | 25.3 | 25.3 |
| Return on equity | 19.1 | 24.8 | 24.6 | 22.8 | 27.3 | 19.1 | 19.1 |
| Research and development ratio | 20.7 | 20.6 | 23.2 | 25.8 | 19.6 | 20.7 | 20.7 |
| Solvency ratio | 62.2 | 61.8 | 51.4 | 60.0 | 58.0 | 62.2 | 62.2 |
| Capital turnover | 78.0 | 82.0 | 80.3 | 92.4 | 91.3 | 78.0 | 78.0 |
| Effective tax rate | 30.8 | 25.0 | 24.7 | 27.1 | 29.6 | 30.8 | 30.8 |
| | DKK | DKK | DKK | DKK | DKK | EUR[1] | USD[2] |
| Earnings per share (EPS)[3] | 11.63 | 12.57 | 10.24 | 8.45 | 9.18 | 1.56 | 2.17 |
| Diluted earnings per share (DEPS)[3] | 11.63 | 12.57 | 10.24 | 8.45 | 9.17 | 1.56 | 2.17 |
| Proposed dividend per share[3] | 3.49 | 3.77 | 3.07 | 2.30 | 2.56 | 0.47 | 0.65 |
| Cash flow per share[3] | 18.48 | 16.65 | 15.47 | 14.12 | 13.18 | 2.48 | 3.45 |
| Net asset value per share[3] | 65.14 | 56.71 | 44.89 | 38.30 | 35.33 | 8.76 | 11.34 |
| Market capitalisation (million) | 21,183 | 20,788 | 18,582 | 21,657 | 28,605 | 2,849 | 3,687 |
| Average number of employees | 5,690 | 5,689 | 5,526 | 5,208 | 5,134 | | |
| Incidence of work-related injuries (per million working hours) | 4.95 | 7.87 | 6.15 | 7.60 | 5.90 | | |
| Raw material consumption (tonnes) | 6,064 | 6,113 | 6,286 | 6,425 | 7,256 | | |
| $CO_2$ emission (tonnes) | 34,115 | 38,004 | 39,284 | 41,573 | 47,867 | | |
| Energy consumption (MWh) | 115,390 | 125,221 | 111,927 | 112,740 | 127,318 | | |
| Hazardous waste (tonnes) | 10,144 | 10,388 | 11,661 | 11,340 | 9,869 | | |

1) Income statement items are translated using the average EUR exchange rate (745.07). Balance sheet items are translated at the EUR exchange rate on 31 December 2011 (743.42)
2) Income statement items are translated using the average USD exchange rate (535.92). Balance sheet items are translated at the USD exchange rate on 31 December 2011 (574.56)
3) The calculation is based on a share denomination of DKK 5.

Comparative figures including number of shares have been restated using a factor 0.9999 for the effect of employees' exercise of warrants.

# LUNDBECK AT A GLANCE

**16,007**

**REVENUE**
Our 2011 revenue reached DKK 16,007 million

**6,000**

**EMPLOYEES**
We are approximately 6,000 employees[1]

**57**

**GLOBAL PRESENCE**
We are a global company with presence in 57 countries and with competencies and activities throughout the value chain: research, development, production, marketing and sales

**20.7%**

**RESEARCH AND DEVELOPMENT**
20.7% of our revenue is reinvested in research and development of new and innovative pharmaceuticals for the treatment of brain disorders

**70%**

**LUNDBECK FOUNDATION**
The largest shareholder is the Lundbeck Foundation, which holds 70% of the shares. In 2011, the Foundation donated DKK 504 million for scientific research

**1915**

**HISTORY**
Lundbeck was founded by Hans Lundbeck almost 100 years ago in 1915. The company was listed on NASDAQ OMX Copenhagen in 1999

## REVENUE AND GROWTH BY PRODUCT

| CIPRALEX®/LEXAPRO® Depression and anxiety | EBIXA® Alzheimer's disease | AZILECT® Parkinson's disease | XENAZINE® Huntington's disease | SABRIL® Epilepsy | OTHER PHARMACEUTICALS[2] |
|---|---|---|---|---|---|
| DKK 8,492 million | DKK 2,751 million | DKK 1,187 million | DKK 852 million | DKK 309 million | DKK 2,027 million |
| +3% | +14% | +15% | +40% | +73% | 0% |

1) Number of employees, including part-time employees at the end of 2011
2) Revenue from Saphris®/Sycrest® is included in Other pharmaceuticals.

# OUR FOCUS

**We are a specialized pharmaceutical company engaged in developing new and innovative treatments for brain disorders on the basis of in-house research and external partnerships.**

**VISION**

Our vision is to become a world leader in psychiatry and neurology.

**MISSION**

Our mission is to improve the quality of life of people suffering from psychiatric and neurological disorders.

**VALUES**

**IMAGINATIVE** – Dare to be different
**PASSIONATE** – Never give up
**RESPONSIBLE** – Do the right thing

**LUNDBECK HAS ACTIVITIES RELATING TO A NUMBER OF BRAIN DISORDERS:**

**ALZHEIMER'S DISEASE**
**BIPOLAR DISORDER**
**DEPRESSION/ANXIETY**
**EPILEPSY**
**HUNTINGTON'S DISEASE**
**PARKINSON'S DISEASE**
**SCHIZOPHRENIA**

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## MANAGEMENT REVIEW



## FINANCIAL STATEMENTS



**See references and notes on page 54.**

**Photos**
In this annual report, we include photos of people suffering from brain disorders. Read their stories in the Lundbeck Magazine 2012/2013.

**Front page photo:** Jakob Tranberg, Denmark.

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# MAKING A DIFFERENCE

**Lundbeck achieved highly satisfactory results in 2011 in terms of financial, strategic and operational performance. This prepares us for meeting our ambitious targets for the coming years and for continuing to make a difference to patients with brain disorders.**

Recording revenues at an all-time high, Lundbeck lived up to its financial guidance in 2011. We were able to grow all of our key products despite a global economic crisis that has compelled governments around the world to introduce health care reforms. Furthermore, we have not only enjoyed success in moving our late-stage projects forward, but have also entered into valuable partnerships.

In the years ahead, we intend to deliver on our floor guidance and to strengthen the foundation for Lundbeck's long-term growth. Our strategy is based on developing our late-stage projects, diversifying our product portfolio, entering into more partnerships and collaborations as well as expanding the business geographically.

In 2011, we achieved positive results in our development pipeline. We submitted registration applications for Onfi™ in the US, Selincro™ in Europe, and Treanda® in Canada. Also, a registration application has been submitted for aripiprazole depot in the US. Further, we received product approvals from the authorities on Lexapro® in Japan and Onfi™ in the US. We will continue to optimize the development of our late-stage projects and expect to submit registration applications for Azilect® in China/Asia and Lu AA21004 in Europe and the US in 2012.

Lundbeck stands on the brink of a new era in which a number of product launches will compensate for a revenue decline in our existing product portfolio while also paving the way for long-term growth. Diversification of our product portfolio will be an ongoing process. In 2011, we launched two products, Lexapro® in Japan and Saphris®/Sycrest® in a number of markets. In January 2012 we launched Onfi™ in the US and subject to product approval, we will also launch aripiprazole depot in the US, Selincro™ in Europe and Treanda® in Canada in 2012.

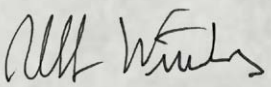
Many of the new and improved treatments that Lundbeck can offer to patients with brain disorders in the coming years are a result of our partnerships and collaborations. In 2011, we entered into a number of new and valuable collaboration agreements. Our new strategic alliance with Japanese Otsuka Pharmaceutical Co., Ltd. gives us access to significant products in the treatment of psychiatric disorders, including aripiprazole depot. Our partnership with US-based Cephalon, Inc. (now Teva Pharmaceutical Industries Ltd.) will allow us to market a number of new pharmaceuticals in Canada and Latin America, the first of which is Treanda®. Through our partnership with US-based Merck & Co., Ltd. we have in-licensed the rights to and started the launch of Saphris®/Sycrest® in markets outside the US, China and Japan. We will continue to pursue business development opportunities to support our short- and long-term growth.

Our strategic focus in the coming years includes geographical expansion. Europe represents Lundbeck's largest market, and in 2011 revenue from European markets accounted for 50% of Lundbeck's total revenue. As Europe accounts for only 27% of the world pharmaceutical market and other regions are expected to see growth in the coming years, we aim to expand our presence in Asia and on the American continent. Our platform in Japan has been established with the launch of Lexapro® together with Japanese Mochida Pharmaceutical Co., Ltd. In China we share a competent sales force with Chinese Xian-Janssen Pharmaceutical Ltd. which pursue our goal of becoming market leader with Lexapro®, and we also have high ambitions for Azilect® and Ebixa® in China. In the US we will further expand our business through Sabril®, Xenazine®, Onfi™ and aripiprazole depot.

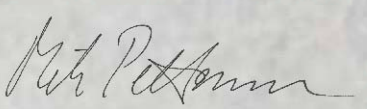
We are driven by a wish to continue making a difference to patients affected by brain disorders. Brain disorders are among the most disabling conditions for patients and are the disorders with the highest costs in societal terms.

Patients will always be our most important stakeholders. It is our knowledge of their unmet medical needs that motivates our work to develop new and better drugs in areas such as depression, anxiety, schizophrenia, Parkinson's disease, alcohol dependence and stroke. We are proud to contribute to promoting patients' access to improved treatment options worldwide.

On behalf of Lundbeck's Board of Directors, management and employees, we would like to thank our shareholders, customers and business partners for all the interest and trust they have shown in our company in 2011.



**Ulf Wiinberg**
*President and CEO*



**Mats Pettersson**
*Chairman of the Board of Directors*

# ACHIEVEMENTS IN 2011

## FINANCIAL RESULTS

Revenue (DKKm)
**16,007**

Revenue growth
**+8%**

Profit from operations (EBIT, DKKm)
**3,393**

Proposed dividend per share (DKK)
**3.49**

## PIPELINE PROGRESS

**4**

**SUBMISSIONS OF REGISTRATION APPLICATIONS**
Aripiprazole depot US
Onfi™ (clobazam) US
Selincro™ (nalmefene) Europe
Treanda® (bendamustine HCl) Canada

**2**

**PRODUCT APPROVALS**
Lexapro® (escitalopram) Japan
Onfi™ (clobazam) US

**2**

**PRODUCT LAUNCHES**
Lexapro® (escitalopram) Japan
Saphris®/Sycrest®(asenapine) several markets

## PARTNERSHIPS

**NEW OR INTENSIFIED COLLABORATION AGREEMENTS**
Cephalon, Inc. (now Teva Pharmaceutical Industries Ltd.)
Otsuka Pharmaceutical Co., Ltd.
Xian-Janssen Pharmaceutical Ltd.

# MANAGEMENT'S REVIEW OF 2011

**Highly satisfactory sales, launch of two pharmaceuticals, progress in our development pipeline with approval of two products and the conclusion of important collaboration agreements helped to make 2011 a very successful year for Lundbeck.**

2011 was an eventful year for Lundbeck. We achieved a satisfactory financial performance with record-high earnings and revenue. We launched Lexapro® in Japan and Saphris®/Sycrest® in a number of markets. We successfully advanced our late-stage projects, including approval of Lexapro® in Japan and Onfi™ in the US. And we generally strengthened Lundbeck's geographical platform, and entered into new collaboration agreements which will be of great importance to Lundbeck in the future.

As was the case in 2010, the year brought huge market challenges with additional pricing and health care reforms that resulted in a consistently challenging economic environment. Generic competition also remained fierce. However, 2011 was a successful year for Lundbeck.

## FINANCIAL RESULTS

We are very pleased to present a full-year profit for 2011, which is consistent with the guidance provided at the beginning of the year and restated in the second quarter report 2011.

**Revenue for the year** rose by 8% to DKK 16,007 million. Measured in local currency the growth rate was 9%. The improvement was driven by increasing sales of Ebixa® and Azilect® (+14% and +15%) and Xenazine® and Sabril® (+40% and +73%). Sales of Cipralex® continued to impress in 2011, growing 3% in spite of increased generic competition in several countries and the withdrawal of the product from the public market in Germany•. Sales of Lexapro® increased 4%.

**Profit from operations before depreciation and amortisation (EBITDA)** rose to DKK 4,628 million. The EBITDA margin was 28.9% compared to 29.8% in 2010.

**Profit from operations (EBIT)** was DKK 3,393 million, corresponding to an increase of 1% relative to 2010. The EBIT margin was 21.2% compared to 22.7% in 2010. The profit includes a milestone payment of approximately DKK 200 million from our Japanese partner Mochida Pharmaceuticals Co., Ltd. relating to the launch of Lexapro® in Japan. Furthermore, we received income of DKK 95 million from the sale of our production facilities in Seal Sands in the UK. The profit also includes a DKK 364 million write-down relating to the restructuring of our research and development organization as communicated in August 2011.

> **WE REACHED IMPORTANT MILESTONES IN 2011 IN LAUNCHING TWO PHARMACEUTICALS, OBTAINING APPROVAL OF TWO PRODUCTS AND CONCLUDING SEVERAL PARTNERSHIP AGREEMENTS. THIS BODES WELL FOR THE FUTURE.**
>
> *Ulf Wiinberg, President and CEO*

**Research and development costs for the year** amounted to DKK 3,320 million, or 20.7% of revenue, which was an increase of 9% compared to 2010. The increase was primarily due to the extraordinary write-down relating to the restructuring of our research and development organization.

**The effective tax rate** for 2011 was 30.8%, consistent with the expected tax rate of 30-32%. The effective tax rate rose from 25.0% in 2010 primarily due to valuation allowance of tax assets.

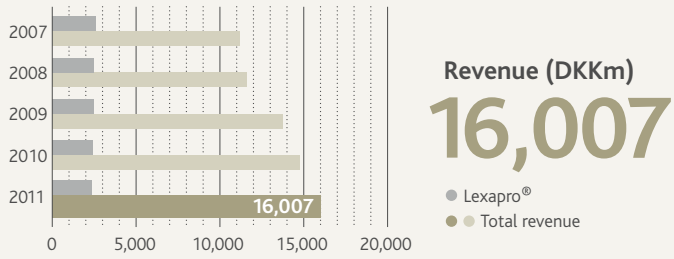
**Profit for the year** decreased 7% to DKK 2,282 million, which is consistent with guidance and translates into earnings per share of DKK 11.63. The Board of Directors will propose to the Annual General Meeting a dividend payout ratio of 30% of the profit for the year after tax, corresponding to DKK 3.49 per share.

• In Germany, treatment in the public market is covered via public funding/reimbursement, whilst the private market is funded privately or through insurance.

**Cash flows from operating activities** increased to DKK 3,624 million, compared with DKK 3,265 million in 2010. At 31 December 2011, we had net cash and cash equivalents of DKK 2,023 million, against DKK 430 million at the end of 2010.

For a detailed financial review for 2011, see p. 58.

**Total revenue 2007-2011** (DKKm)




## PIPELINE PROGRESS

2011 was another year of positive progress in our development portfolio, including the approval of two products.

In April, our Japanese partner **Mochida Pharmaceuticals Co., Ltd.** obtained registration approval of **Lexapro® (escitalopram)** for the treatment of depression in Japan, and in August the product was launched by Mochida in collaboration with their Japanese partner **Mitsubishi Tanabe Pharma Corporation**. This launch was a milestone in Lundbeck's history, as it is the first of our products to become available in Japan.

In October 2011, **Onfi™ (clobazam)** for the treatment of Lennox-Gastaut syndrome (epilepsy) was approved by the U.S. Food and Drug Administration (FDA). The approval was based on the positive clinical study results which we submitted as part of a New Drug Application (NDA) in 2010. In January 2012, we launched Onfi™ in the US.

The clinical phase III programme for **nalmefene** for the treatment of alcohol dependence was completed in 2011, and we submitted a Marketing Authorisation Application (MAA) to the European Medicines Agency (EMA) in December 2011. We expect a reply from the authorities at the end of 2012. Subject to approval, nalmefene will be marketed under the brand name **Selincro™** and will become the first pharmaceutical in the market for the treatment of alcohol dependence that helps to reduce alcohol intake.

In November, we received acceptance from the FDA of the submission of the NDA for **aripiprazole depot** in the US for the treatment of schizophrenia; a compound that Lundbeck has co-marketing rights to through our new strategic alliance with Japanese **Otsuka Pharmaceutical Co., Ltd.**

The clinical phase III programme for **Lu AA21004** for the treatment of Major Depressive Disorder (MDD) is progressing as planned. The full clinical development programme is expected to be completed in 2012. In addition, we initiated clinical phase II studies in Japan together with our Japanese partner **Takeda Pharmaceutical Company Limited** in May 2011.

## SUCCESSFUL PARTNERING STRATEGY

For a number of years, entering partnerships has been a key element of Lundbeck's overall business strategy. We have been very successful with the agreements we have made over the years, and both our product launches in 2011 were results of such partnerships. We also have great expectations for the new partnership agreements we signed in 2011.

In 2011, **Lexapro®** was launched in Japan by **Mochida** in collaboration with **Mitsubishi**. The launch was the direct result of the partnership agreement Lundbeck signed with Mochida in 2002 concerning the development of escitalopram for the Japanese market. Over the course of the years, Lundbeck has received milestone payments and will now receive a pre-arranged royalty payment, which is a substantial percentage of the combined revenue in Japan.

In 2010, Lundbeck acquired the rights to **Saphris®/Sycrest® (asenapine)** in all markets outside the US, China and Japan from US-based **Merck & Co., Ltd.** The launch of Sycrest® for the treatment of manic episodes associated with bipolar disorder was initiated in the European markets in 2011 and will continue in 2012. Outside Europe, Saphris® is indicated for the treatment of both manic episodes associated with bipolar disorder and schizophrenia. The launch has been initiated in several markets in Asia and in Australia and Canada, and more countries will follow in 2012.

## NEW EXCITING COLLABORATION AGREEMENTS

In November 2011, Lundbeck signed a strategic partnership agreement with **Otsuka**. The agreement covers the development and commercialization of pharmaceuticals for the treatment of psychiatric disorders. We have great expectations for this agreement. Under the terms of the agreement, Lundbeck is granted co-commercialization rights in all areas outside Asia, Turkey and Egypt for two of Otsuka's high-potential compounds; aripiprazole depot and OPC-34712.

**Aripiprazole depot** is developed for the treatment of schizophrenia. An NDA has been submitted to the FDA. In Europe, the compound is in clinical phase III, and we expect to submit an MAA to the EMA in the first half of 2013. **OPC-34712** recently entered clinical phase III studies in schizophrenia and depression.

The agreement with Otsuka also involves an option to enter into co-development and co-commercialization of up to three of Lundbeck's early stage compounds in certain geographical regions.

At the beginning of 2011, Lundbeck signed an agreement with US-based **Cephalon, Inc.** (now Teva Pharmaceutical Industries Ltd.), which gave us the commercial rights in Canada and Latin America to six products with indications in brain disorders and cancer, including **Treanda® (bendamustine HCl)** for the treatment of chronic lymphocytic leukemia (CLL) and indolent non-hodgkin lymphoma (NHL). Hereby we will establish a small oncology business in Canada. We have commenced registration procedures for several of the products which will be marketed through already established sales channels.

In 2010, we revised our agreement concerning **Lexapro®** with our Chinese partner **Xian-Janssen Pharmaceuticals Ltd.** We changed the conditions from a traditional license agreement to an agreement on joint marketing. In 2011, our new sales organization was in place, and together with Xian-Janssen we have

established a highly competent sales force for antidepressants in China. We have already witnessed a positive impact from these efforts.

## CHANGES IN BOARD AND MANAGEMENT

At the Annual General Meeting in March 2011, Mats Pettersson was elected new chairman of Lundbeck's Board of Directors. Two new members were elected to the Board; Christian Dyvig, CEO of the Lundbeck Foundation, and Håkan Björklund, Health Care Operating Executive of Avista Capital Partners. The new members were elected as the former chairman Per Wold-Olsen and board member Egil Bodd decided to resign.

Changes were also made to Lundbeck's Executive Management in 2011. Marie-Laure Pochon, former Managing Director of Lundbeck's French subsidiary with overall responsibility for a number of European countries, took over the position of Executive Vice President, Commercial Operations from Stig Løkke Pedersen after his resignation. At the same time, Lundbeck's Executive Management was reduced from six to four members in order to strengthen the execution of our overall strategy. Lundbeck's Executive Management now consists of Ulf Wiinberg, President and CEO, Anders Götzsche, Executive Vice President, CFO, Anders Gersel Pedersen, Executive Vice President, Research & Development, and Marie-Laure Pochon, Executive Vice President, Commercial Operations.

## CONTINUED FOCUS ON HIGH PERFORMANCE

In 2011, we continued focusing on our global high performance management process, the aim of which is to ensure that the goals of each employee support the company's objectives to a greater extent than previously. As part of these endeavours, we anchored four types of behaviour to help us achieve the goals. This means that employees are not only evaluated on the basis of target fulfilment but also on the ways in which they have reached their goals.

Furthermore, leadership development and talent management programmes were established and implemented in 2011. The aim of the leadership development programme is to address future leadership needs with a clear focus on our business challenges, while the aim of the talent management programme is to ensure attraction, development and retention of talents as well as a solid basis for delivering on the future strategic targets.

## LUNDBECK OPPOSES MISUSE OF PRODUCT

In January 2011, we became aware that a number of US prisons had started using pentobarbital (developed for the treatment of severe epileptic seizures and marketed by Lundbeck under the Nembutal® brand) in relation to capital punishment. Lundbeck has opposed strongly to this misuse. We informed the prison authorities, governors and public authorities that our product was being misused and requested this to be stopped. We consulted with NGOs, public authorities and external experts to identify possibilities of stopping the misuse and in June 2011, we set up a new distribution programme to ensure that hospitals and treatment centres could continue to have access to the product for therapeutic purposes, while at the same time limiting the potential for misuse. Accordingly, we have no knowledge of any prisons being able to acquire the product since we introduced the distribution programme.

In December 2011, Lundbeck divested a portfolio of products in the US, comprising Nembutal® (pentobarbital sodium injection, USP), Cogentin® (benztropine mesylate injection) and Intravenous Sodium Diuril® (chlorothiazide sodium) as part of our long-term strategy. Moving forward, Lundbeck US will focus on the newer therapies such as Onfi™, aripiprazole depot and Lu AA21004 which give us the best prospects for strong growth in the important US market. Lundbeck will receive upfront and milestone payments after three years of up to USD 60 million. The terms of the transaction include continued enforcement of the restricted distribution programme for Nembutal®.

## POSITIVE EXPECTATIONS FOR 2012

Following a successful 2011, we have positive expectations for 2012. We launched two pharmaceuticals in 2011, and at the beginning of 2012 we rolled out another new product. We also expect strong results from our remaining product portfolio.

In spite of these strong trends, we need to acknowledge that we will not in 2012 create revenue growth and earnings on a level with the numbers achieved in 2011. We are facing patent expiry for escitalopram in the US in March 2012, which will result in a revenue decline for Lexapro®. Consequently, we also expect a reduction in earnings.

Our financial guidance for 2012 is thus a total revenue of DKK 14.5-15.2 billion, profit from operations before depreciation and amortisation (EBITDA) of DKK 3.0-3.5 billion and profit from operations (EBIT) of DKK 2.0-2.5 billion.

**Forecast 2012**

| | Forecast• 2011 (DKKbn) | Actual 2011 (DKKm) | Forecast 2012 (DKKbn) |
|---|---|---|---|
| Revenue | 15.3-15.8 | 16,007 | 14.5-15.2 |
| Profit from operations before depreciation and amortisation (EBITDA) | 4.3-4.6 | 4,628 | 3.0-3.5 |
| Profit from operations (EBIT) | 3.3-3.6 | 3,393 | 2.0-2.5 |

• According to guidance provided at the beginning of 2011 and restated in the second quarter report 2011

**Long-term forecast 2013-2014**

| | 2013 (DKKbn) | 2014 (DKKbn) |
|---|---|---|
| Revenue | >14.0 | >14.0 |
| Profit from operations (EBIT) | >2.0 | >2.0 |
| Sales and distribution costs and administrative expenses as a percentage of revenue | 37-40% | 37-40% |
| Research and development costs as a percentage of revenue | ~20% | ~20% |

### 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, government-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.

### Important events reported after the end of the year

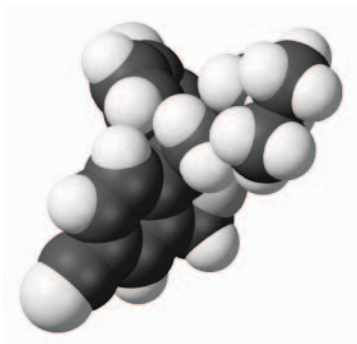
In January 2012, Lundbeck launched Onfi™ in the US for the treatment of Lennox-Gastaut syndrome (epilepsy).

## MILESTONES 2011

### Q1

Lundbeck is granted the commercial rights in Canada and Latin America to six products with indications in brain disorders and cancer from US based **Cephalon, Inc.** (now Teva Pharmaceutical Industries Ltd.).

Christian Dyvig, CEO of the Lundbeck Foundation, and Håkan Björklund, Health Care Operating Executive of Avista Capital Partners, are elected to the **Board of Directors** at the Annual General Meeting.



### Q2

Lundbeck starts launching **Saphris®/ Sycrest® (asenapine)** for the treatment of schizophrenia and manic episodes associated with bipolar disorders in markets outside the US, China and Japan.

Lundbeck's Japanese partner **Mochida Pharmaceutical Co., Ltd.** receives approval of **Lexapro® (escitalopram)** in Japan for the treatment of depression.

The clinical phase III study with **Lu AA21004** for the treatment of Major Depressive Disorder (MDD) is initiated in Japan by Lundbeck and our Japanese partner **Takeda Pharmaceutical Company Limited.**

### Q3

Lundbeck sets up a distribution programme for **Nembutal® (pentobarbital)** in order to restrict misuse of the product in relation to capital punishment in some US states.

Mochida launches **Lexapro®** in Japan for the treatment of depression in collaboration with Japanese **Mitsubishi Tanabe Pharma Corporation**, making Lundbeck's first pharmaceutical product available in Japan.

Lundbeck's **Executive Management** is reduced from six to four members in order to strengthen the execution of the overall strategy and a new Executive Vice President of Commercial Operations is appointed.

A registration application for **Treanda® (bendamustine HCl)** for the treatment of chronic lymphocytic leukemia (CLL) and indolent non-hodgkin lymphoma (NHL), a product we got the commercial rights to from **Cephalon** (now Teva) earlier in 2011, is filed with the Canadian authorities.

### Q4

Lundbeck establishes a **new research centre in Shanghai, China**, substantially increasing our opportunities for entering into research partnerships with businesses and universities in China and the rest of Asia.

The U.S. Food and Drug Administration (FDA) approves **Onfi™ (clobazam)** for the treatment of Lennox-Gastaut syndrome (epilepsy).

Lundbeck and Japanese **Otsuka Pharmaceutical Co., Ltd.** sign an historic agreement to deliver innovative medicines targeting psychiatric disorders worldwide.

Lundbeck and Otsuka get acceptance from the FDA of the submission of a New Drug Application (NDA) for **aripiprazole depot** in the US for the treatment of schizophrenia.

A Marketing Authorisation Application (MAA) for **Selincro™ (nalmefene)** is submitted to the European Medicines Agency (EMA).

Lundbeck divests a portfolio of products in the US, including **Nembutal®**, as part of our long-term strategy.

# JEAN-CLAUDE PARENT

## FRANCE

is in the early stages of Parkinson's disease. He is dedicated to establishing a local association where people with Parkinson's disease can learn from and comfort each other.

### FACTS ABOUT PARKINSON'S DISEASE

Parkinson's disease is a progressive condition that involves a gradual loss of nerve cells in a finite area of the brain. People with Parkinson's disease have difficulty controlling their body movements, and symptoms become worse as the condition progresses. Ultimately, Parkinson's disease impairs the patient's ability to function in daily life situations.

# REBECCA DIFILIPPO

## CANADA

relentlessly blamed herself. She felt inadequate as a boss, wife and mother. She had no idea that she was in fact suffering from severe depression.

### FACTS ABOUT DEPRESSION

Depression is expressed in a wide range of emotional and physical symptoms, such as melancholy, loss of energy, difficulty in concentrating and suicidal thoughts. These symptoms can have a great impact on daily life. People suffering from depression may no longer have control over their moods or feelings, and they tend to feel low almost all the time.

# JAKOB TRANBERG

## DENMARK

was a successful graphic designer who used his creative skills to the full. Bipolar disorder put an end to this. Today, he needs to deploy his creative skills very gently to avoid triggering new manic episodes.

### FACTS ABOUT BIPOLAR DISORDER

Bipolar disorder is characterised by repeated episodes of mania and depression or a mixture of both. In manic periods the symptoms are inflated self-esteem and flights of ideas, decreased need for sleep, excessive talking, and a tendency for impulsive and reckless behaviour, whereas the depressive periods are characterized by a lowering of mood and decreased energy and activity.

# GROWING BURDEN OF DISEASE

**The WHO's assessments of the burden of mental disorders across countries and continents along with estimates of the associated direct and indirect costs demonstrate the need for developing and making available treatments that address these disorders.**

## THE GLOBAL BURDEN OF DISEASE

The Global Burden of Disease Report, first published by the World Health Organization (WHO) in 1990 and last updated in 2004 , was a turning point in terms of the assessment of health and diseases. For the first time, measures were taken to compare the burden of disease across countries and continents.

Since 2000, mortality and morbidity have been combined into a single and common metric, the **disability-adjusted life years (DALYs).** This is a measure of overall disease burden, expressed as the number of years lost due to ill-health, disability or early death. As such, it extends the concept of potential years of life lost due to premature death to include equivalent years of 'healthy' life lost by virtue of being in the state of poor health or disability.

**The world's most burdensome diseases•**

| | |
|---|---|
| 1. Cancer | **15. Bipolar disorder** |
| **2. Depression and anxiety** | 16. Liver cirrhosis |
| 3. Ischaemic heart disease | **17. Dementia** |
| **4. Cerebrovascular disease** | 18. Endocrine disorders |
| 5. Chronic obstructive pulmonary disease | 19. Macular degeneration |
| 6. Refractive errors in the eye | 20. Nephritis and nephrosis |
| 7. Hearing loss | 21. Drug abuse |
| 8. Congenital anomalies | **22. Hypertensive heart disease** |
| **9. Alcohol dependence** | **23. Epilepsy** |
| 10. Diabetes mellitus | 24. Migraine |
| 11. Cataracts | 25. Rheumatic heart disease |
| **12. Schizophrenia** | |
| 13. Asthma | |
| 14. Osteoarthritis | **35. Parkinson's disease** |

• **Note:** DALYs (disability-adjusted life years), except infectious diseases. Areas in which Lundbeck has activities are in bold. **Sources:** WHO World Health Report 2004 and Lundbeck.

The burden of mental disorders displays significant geographic variation. However, in high-income countries, conditions like depressive disorders, bipolar disorders, schizophrenia, migraine and alcohol use disorders represent over 60% of DALYs[1].

## THE COST OF BRAIN DISORDERS IN EUROPE

In 2005, a major European interdisciplinary effort produced a landmark report on the size, burden and cost of brain disorders. The report was coordinated by the European Brain Council (EBC) and the European College of Neuropsychopharmacology (ECNP). The 2011 update of this report clearly demonstrates the increasing burden of these disorders with 164.8 million people in Europe, corresponding to 38.2% of the EU population, suffering from a mental disorder each year[2].

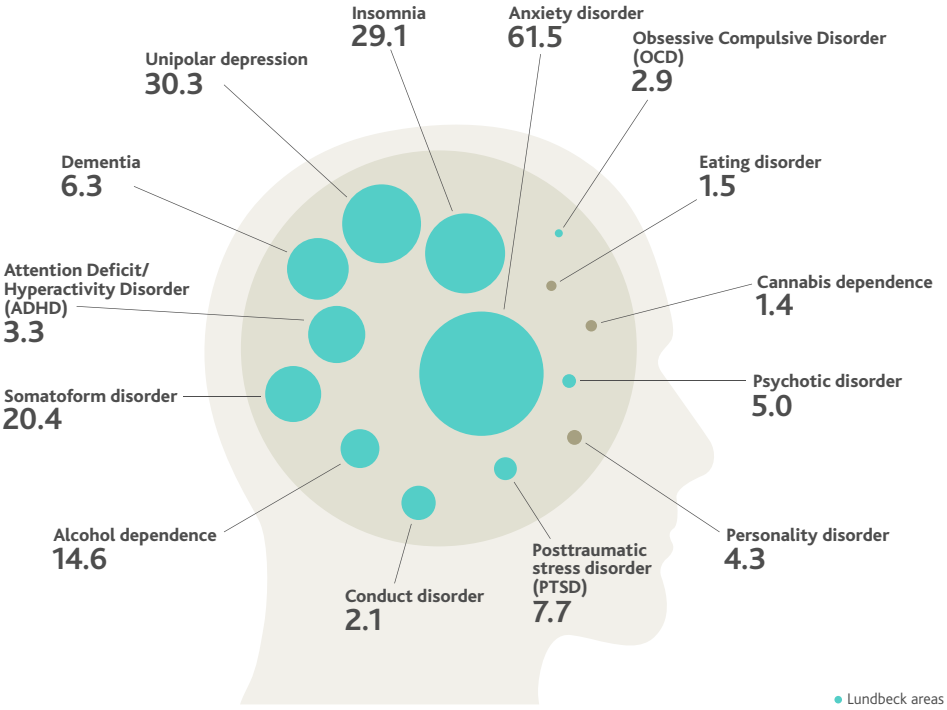
> **THE WHO REINFORCES THE URGENT NEED TO SCALE UP RESOURCES AND CARE FOR MENTAL HEALTH WITHIN COUNTRIES.[3]**

The combination of prevalence of disease and cost per patient provides an estimate of the financial burden associated with a disorder. In 2010, the total costs of brain disorders in Europe were estimated at EUR 798 billion. 40% of this amount was indirect costs associated with patients' loss of productivity, whereas 37% was direct health care costs and 23% direct non-medical costs[4].

Estimation of direct and indirect costs is known to be challenging and is most likely grossly underestimated. For example, the total tangible costs of alcohol consumption in Europe can be estimated to EUR 125 billion according to the WHO. These numbers include both direct and indirect costs, including costs due to premature mortality[5].

## MENTAL DISORDERS

Estimated number of persons affected by a mental disorder in the EU (million)




Number of persons in the EU suffering from a mental disorder

**164.8m**

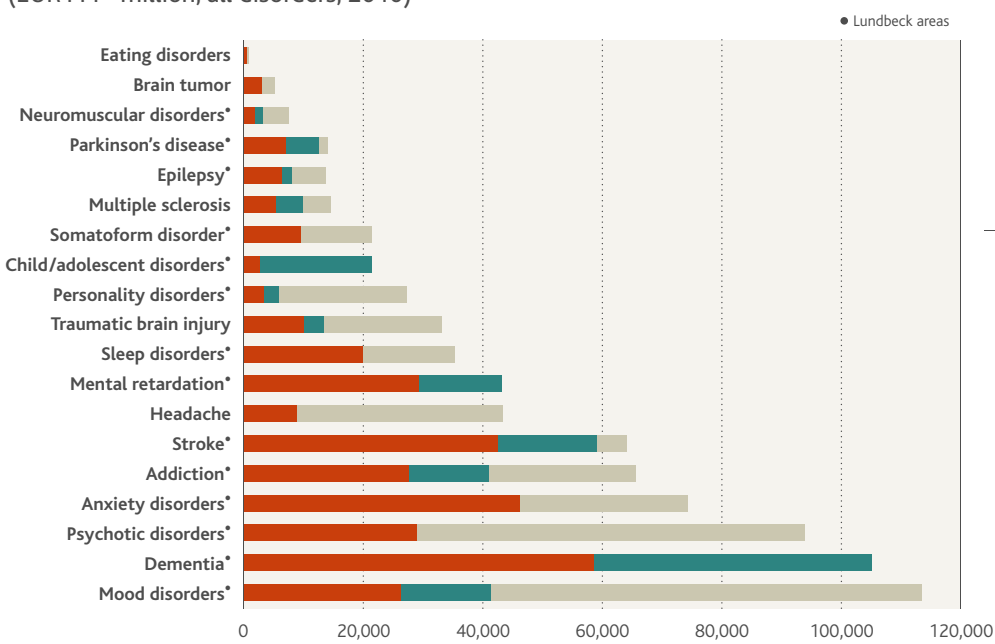
Percentage of persons in the EU suffering from a mental disorder

**38.2%**

**Source:** Wittchen et al. – The size and burden of mental disorders and other disorders of the brain in Europe 2010, European Neuropsychopharmacology, 2011. Graphic representation by Lundbeck.

## TOTAL COSTS BY DISORDER AND TYPE OF COST

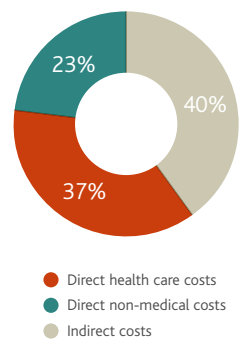
(EUR PPP* million, all disorders, 2010)




Total costs of brain disorders in the EU

**EUR 798bn**

Composition of costs




**Source:** Gustavsson et al. – Cost of disorders of the brain in Europe 2010, European Neuropsychopharmacology, 2011. Graphic representation by Lundbeck.
**Note:** Purchasing Power Parity (PPP) – adjustment of the exchange rate so that an identical good in two different countries has the same price when expressed in the same currency.

As stated in the European report, the increasing burden of disease and the associated increasing cost of brain disorders is a ticking bomb under the European economy and the European society as a whole. There are opportunities to improve prevention, but a real change in the outlook is only likely to come from the development of new, more specific and effective drugs and non-pharmaceutical treatments as well as improved treatment resources.

While this report covers Europe only, the data can probably be extrapolated to most high-income countries. Treatment and prevention of brain disorders seem a natural target for significant health care research funding in the future. Particularly when considering the burden of disease, the huge cost to society, the large number of untreated patients and the lack of effective treatments.

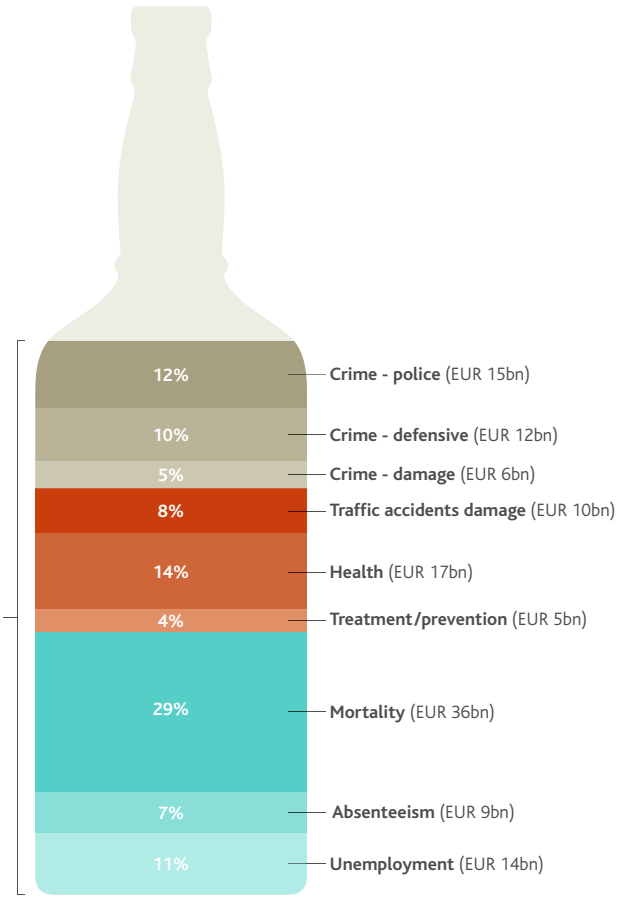
## MAKING AVAILABLE NEW IMPROVED TREATMENTS

The burden and cost of brain disorders clearly demonstrate the need for developing and making available treatments that address these disorders, providing benefit to not only patients but also to society.

That is why we at Lundbeck engage in making national health authorities aware of how serious these disorders are and what can be done to improve the quality of life for those affected by them.

We are naturally also highly dedicated to the research and development of new treatments and in making them available to as many patients as possible. Among our recently launched and late-stage pipeline products are new improved treatments for Lennox-Gastaut syndrome (epilepsy), alcohol dependence and Major Depressive Disorder (MDD).

## THE TANGIBLE COSTS OF ALCOHOL USE IN THE EU




**Total tangible costs of alcohol consumption in the EU**

**EUR 125bn**

**Around 60% is related to alcohol dependence, which in the EU would correspond to approximately EUR 75bn.[6]**

Cost of alcohol-related problems in the EU

**EUR 66bn**

Cost related to potential production not realised due to absenteeism, unemployment and premature mortality in the EU

**EUR 59bn**

Alcohol dependent adults in the EU corresponding to approximately 12 million people

**5%** Men

**1.4%** Women

**Source:** WHO – European Status Report on Alcohol and Health 2010, 2010. Graphic representation by Lundbeck.

**Onfi™ (clobazam) – addressing a rare and severe form of epilepsy**
Onfi™ (clobazam) was recently approved by the U.S. Food and Drug Administration (FDA) as an adjunctive therapy offering an additional seizure management option for patients two years and older affected by the severe neurological disorder Lennox-Gastaut syndrome.

Lennox-Gastaut syndrome is a rare and severe form of epilepsy that is typically diagnosed in childhood and often persists into adulthood. It is a catastrophic epilepsy associated with multiple types of seizures, where periods of frequent as well as daily seizures are common.

Lennox-Gastaut syndrome usually starts at the age of 2-8 years[7]. The prevalence has been estimated at 1-4% of all childhood epilepsies, although figures as high as 10% have been reported[8,9]. There are 23,000-75,000 people with Lennox-Gastaut syndrome in the US alone.

A large number of patients with Lennox-Gastaut syndrome continue to have multiple types of seizures throughout adulthood. Some of these seizures may cause sudden falls, or drop seizures, also referred to as drop attacks, which often result in injury[8]. Due to the frequency and severity of these seizures, Lennox-Gastaut syndrome can take an enormous toll on the health of the patient, as well as the well-being of the patient's family. Up to 10% of children with Lennox-Gastaut syndrome die before reaching the age of 11, some due to injuries sustained during drop seizures[10].

Onfi™ was tested as a new adjunctive therapy in patients with a history of Lennox-Gastaut syndrome in the largest clinical trial in this patient group to date[11].

Lundbeck launched Onfi™ in the US in January 2012.

**WE ARE NATURALLY ALSO HIGHLY DEDICATED TO THE RESEARCH AND DEVELOPMENT OF NEW TREATMENTS AND IN MAKING THEM AVAILABLE TO AS MANY PATIENTS AS POSSIBLE.**

*Anders Gersel Pedersen, Executive Vice President, Research & Development*

**Selincro™ (nalmefene) – reducing alcohol consumption**
In the EU, 5% of adult men and 1.4% of adult women are estimated to be alcohol dependent in any one year[12], corresponding to approximately 12 million people. Of the total tangible costs of EUR 125 billion estimated by the WHO to be related to alcohol consumption, EUR 66 billion correspond to alcohol-related problems, while EUR 59 billion relate to potential production not realised due to absenteeism, unemployment and premature mortality[13]. Alcohol dependence accounts for around 60% of total tangible costs related to alcohol, which in the EU would correspond to approximately EUR 75 billion[14].

Patients with alcohol dependence are currently under-diagnosed and under-treated[15]. In order to address the existing unmet medical need, Lundbeck has recently submitted a Marketing Authorisation Application (MAA) to the European Medicines Agency (EMA) for nalmefene. It is the first pharmacological treatment developed specifically for the reduction of alcohol consumption in alcohol-dependent patients.

The registration application for nalmefene is based on the largest clinical phase III programme conducted in this patient group to date. The clinical phase III efficacy studies showed that patients treated with nalmefene for six months decreased their total alcohol consumption and heavy drinking days by more than 50%, while data from the 12-month safety study confirmed that this effect is maintained and even improved after one year of treatment.

Interestingly, approximately two-thirds of the patients enrolled in the studies had not previously been treated for alcohol dependence. This indicates that reduction of alcohol intake is an attractive treatment goal for patients and caregivers.

Subject to approval nalmefene will be marketed under the brand name Selincro™. It is expected to be launched in 2013.

**Lu AA21004 – a novel multimodal antidepressant**
On a global basis, 150 million people suffer from depression, and in France, Germany, Italy, Spain, UK, Japan and the US, the number is 40 million[16]. These figures stress the importance of dealing with several unmet medical needs within depression such as developing drugs with higher remission rates and increased onset of action. When patients take currently available medication, it often takes up to four weeks before they feel symptom relief.

Depression continues to impose severe and troublesome burdens on individuals, families and society. Only about 35% of patients with Major Depressive Disorder (MDD) respond to a first line SSRI treatment, and 35% of patients remain symptomatic despite several treatment adjustments[17]. Furthermore, 60% of patients with MDD with symptoms remaining after treatment have a higher risk of relapse. Even patients in symptomatic remission often have some degree of residual, often cognitive, symptoms, rendering them dysfunctional[18,19].

Lu AA21004 is a multimodal antidepressant currently investigated in clinical phase III trials. The compound is being developed to offer a novel treatment opportunity for patients with MDD[20]. Ongoing studies with Lu AA21004 aim at securing a differentiated product profile that addresses the unmet needs described above.

Lu AA21004 is expected to be launched in 2013.

# RESEARCH AND DEVELOPMENT

## ACTUAL AND EXPECTED APPLICATIONS, APPROVALS AND LAUNCHES

### 2011

**SUBMISSIONS OF REGISTRATION APPLICATIONS**
Aripiprazole depot US
Onfi™ (clobazam) US
Selincro™ (nalmefene) Europe
Treanda® (bendamustine HCl) Canada

**PRODUCT APPROVALS**
Lexapro® (escitalopram) Japan
Onfi™ (clobazam) US

**PRODUCT LAUNCHES**
Lexapro® (escitalopram) Japan
Saphris®/Sycrest® (asenapine) several markets

### 2012

**SUBMISSIONS OF REGISTRATION APPLICATIONS**
Azilect® (rasagiline) China/Asia
Lu AA21004 Europe/US

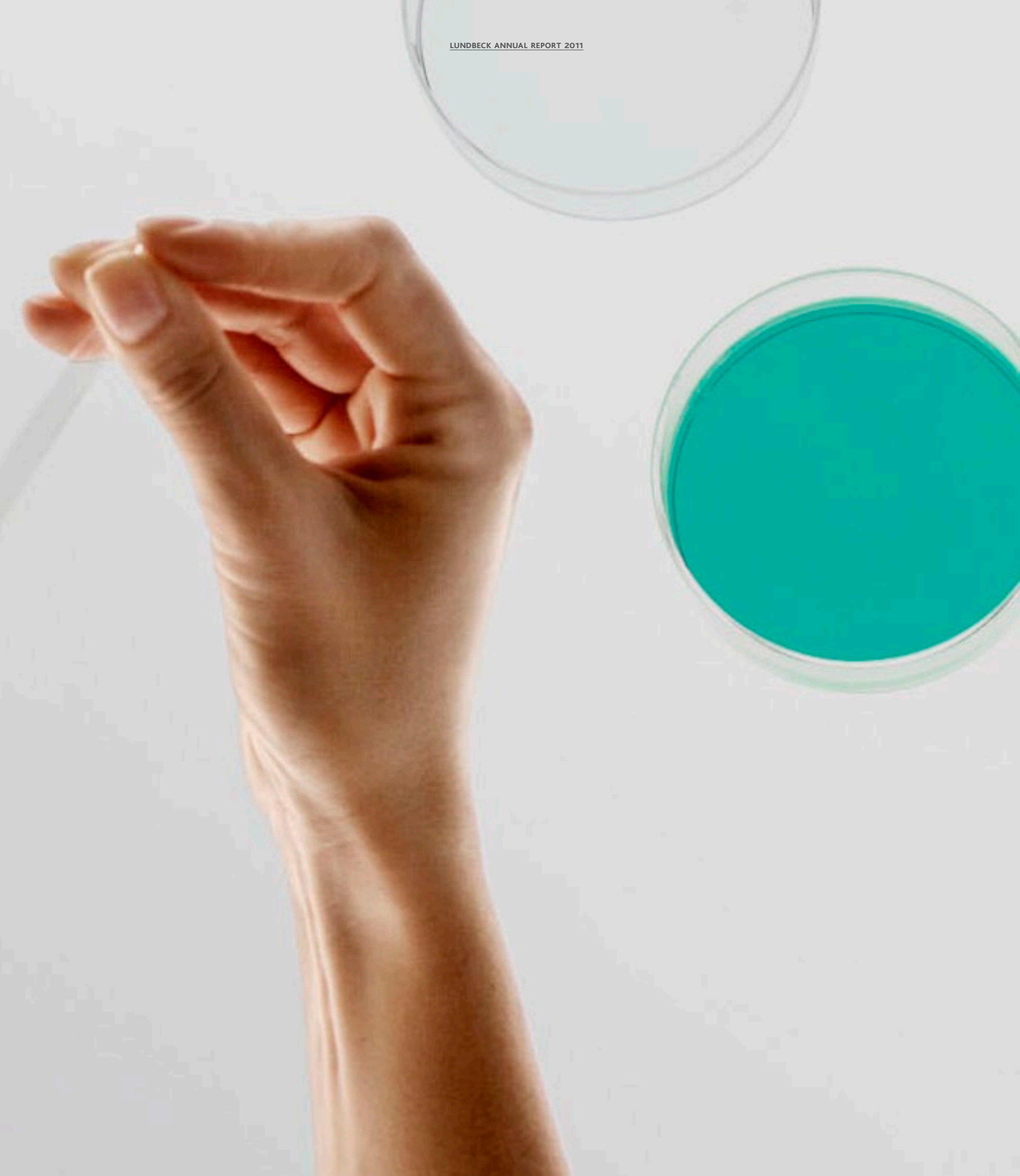
**PRODUCT APPROVALS**
Aripiprazole depot US
Treanda® (bendamustine HCl) Canada
Other Cephalon products Canada/Latin America

**PRODUCT LAUNCHES**
Onfi™ (clobazam) US
Treanda® (bendamustine HCl) Canada

**R&D % OF REVENUE IN 2011•**

**20.7%**

• Including a DKK 364 million write-down relating to the restructuring of our research and development organization in August 2011.



# PIPELINE PROGRESS AND PARTNERSHIPS

**Better treatment for patients suffering from brain disorders requires comprehensive research. Lundbeck's strategy is based on in-house research and development and partnering activities.**

Lundbeck conducts research and development in order to launch innovative pharmaceuticals for the treatment of brain disorders. The pipeline projects target areas where Lundbeck currently has a market presence, such as depression, anxiety, schizophrenia and Parkinson's disease, as well as new areas in psychiatry and neurology such as alcohol dependence and stroke. We constantly strive to be a leader within our field, and in order for us to bring the best new treatments to patients, we have maintained a high level of investment in research and development of DKK 3,320 million in 2011, equal to 20.7% of our revenue.

## STRATEGY AIMING TO IMPROVE TREATMENTS

The aim of Lundbeck's research and development strategy is to enable the discovery and development of new pharmaceuticals targeting the underlying mechanisms of brain disorders. This approach allows us to treat the symptoms more effectively and potentially also to alter the course of the disease. The strategy requires comprehensive research regarding the brain and the biology and mechanisms of brain disorders. It is essential for us to maintain strong internal research and development capabilities in order to establish optimal networks and partnerships for our projects. We will continue to build external alliances to supplement our internal capabilities, taking advantage of the increased opportunities provided to us by innovative technologies.

## NEW RESEARCH CENTRE IN CHINA

Over the past ten years, Lundbeck has established and expanded its research network in China. Our local presence in the country's blooming research environment has been further strengthened by the establishment of a new research centre in Shanghai in October 2011, which also sends a strong signal to the Chinese research environment and authorities about our deep commitment.

The new centre will enhance Lundbeck's opportunities for entering into research collaborations with local businesses and universities in China and other Asian countries and will improve our possibilities for identifying attractive new discoveries in the Chinese and Asian research environments. The new centre supplements Lundbeck's research centres in Europe and the US, thus forming the company's global platform for research alliances.

## BROAD DEVELOPMENT PORTFOLIO

Lundbeck has a broad development portfolio comprising a number of new and promising pharmaceutical candidates. In 2011, we recorded strong progress in our late-stage projects and sharpened the profile of our other projects: In April, our Japanese partner Mochida Pharmaceutical Co., Ltd. obtained approval of **Lexapro® (escitalopram)** from the Japanese Ministry of Health, Labour and Welfare (MHLW), and in August the product was launched by Mochida in collaboration with their Japanese partner Mitsubishi Tanabe Pharma Corporation.

Similarly, **Onfi™ (clobazam)** for the treatment of Lennox-Gastaut syndrome (epilepsy) was approved by the U.S. Food and Drug Administration (FDA) in October 2011 and subsequently launched at the beginning of 2012. The clinical phase III programme for **nalmefene** for the treatment of alcohol dependence was completed and a Marketing Authorisation Application (MAA) has been submitted to the European Medicines Agency (EMA) in December 2011. Subject to approval, nalmefene will be marketed under the brand name **Selincro™.**

> **OUR NEW RESEARCH CENTRE IN CHINA WILL STRENGTHEN LUNDBECK'S COMMITMENT IN THE BLOOMING RESEARCH ENVIRONMENTS IN CHINA AND OTHER COUNTRIES IN ASIA**
>
> *Anders Gersel Pedersen, Executive Vice President, Research & Development*

**Lu AA21004** for the treatment of Major Depressive Disorder (MDD), **desmoteplase** for the treatment of stroke and **IV carbamazepine** for the treatment of epilepsy

all continue in their clinical phase III programmes. **Zicronapine**, which has demonstrated a potential in a number of psychiatric and neurological disorders, commenced a clinical phase III programme. **Lu AA24530** for the treatment of depression awaits optimisation of the clinical phase III programme before it is initiated. The clinical phase II studies with **Lu AE58054** for Alzheimer's disease continue.

We added two new late-stage compounds to our pipeline through the strategic partnership with Japanese Otsuka Pharmaceutical Co., Ltd. **Aripiprazole depot** is under development for the treatment of schizophrenia and a New Drug Application (NDA) has been submitted to the FDA. **OPC-34712** recently entered clinical phase III studies in schizophrenia and MDD.

Finally, in 2011 we have terminated further development of two compounds in clinical phase II; Lu AA24493 for the treatment of Friedreich's ataxia and Lu AA39959 for the treatment of psychosis.

**Lundbeck's principal collaborative partners in R&D**

| | |
|---|---|
| Biotie Therapies Corp. | Nalmefene |
| Genmab A/S | Antibodies |
| Kyowa Hakko Kirin Co., Ltd. | KW-6356 |
| Otsuka Pharmaceutical Co., Ltd. | Aripiprazole depot and OPC-34712 |
| Paion AG | Desmoteplase |
| Proximagen Group plc | Three novel therapies |
| Takeda Pharmaceutical Company Limited | Lu AA21004 and Lu AA24530 |
| Zenobia Therapies, Inc. and Vernalis plc. | New technology |

## PROJECTS IN LUNDBECK'S DEVELOPMENT PIPELINE

### ARIPIPRAZOLE DEPOT

Aripiprazole depot is under development for the treatment of schizophrenia. An NDA has been submitted to the FDA. In Europe the compound is in clinical phase III with expected submission of an MAA to the EMA in 2013.

**Ongoing clinical programme:** The global clinical phase III programme is still ongoing with more than 3,000 patients. An NDA has been submitted in the US based on already obtained data.

**Profile:** Aripiprazole depot formulation is a sterile, lyophilized cake that when reconstituted with sterile water for injection, forms an injectable suspension. This formulation has been evaluated as a once-monthly injection for the maintenance treatment of schizophrenia.

Lundbeck collaborates with Otsuka on development and commercialization.

### SELINCRO™ (NALMEFENE)

In 2011, we completed the clinical phase III programme for nalmefene for the treatment of alcohol dependence. An MAA was submitted to the EMA at the end of 2011. Subject to approval, nalmefene will be marketed under the brand name Selincro™.

**Clinical programme:** About 2,000 patients were enrolled in clinical phase III studies for nalmefene in Europe. The patients were randomised into two groups receiving oral nalmefene and placebo, respectively. Two of the three clinical trials primarily aimed at demonstrating the efficacy of nalmefene over a six-month treatment period. The primary objective of the third study was to confirm the safety and tolerability of the compound and to demonstrate the beneficial efficacy of the treatment over a 12-month period. We assessed a wide range of primary and secondary endpoints, including number of heavy drinking days per month (HDD) and total alcohol consumption in grams per day (TAC). All assessments were consistently in favour of nalmefene compared to placebo. The medical intervention with nalmefene had a positive effect within the first month and led to a reduction in alcohol consumption of over 50%. The effect was maintained throughout the study period. There are currently no ongoing programmes with nalmefene.

**Profile:** Nalmefene blocks the mechanism in the brain that produces the desire to drink alcohol, allowing individuals to control and limit intake.

The compound was inlicensed from Biotie Therapies Corp. in Finland.

### LU AA21004

Lu AA21004 for the treatment of Major Depressive Disorder (MDD) entered clinical phase III at the end of 2007. The full clinical development programme is expected to be completed in 2012, and we plan to submit registration applications for Lu AA21004 in the US and Europe during 2012.

**Ongoing clinical programme:** Data from the completed and reported clinical phase III studies support Lu AA21004 as a multimodal anti-depressant based on its safety and efficacy in different populations. In addition, Lu AA21004 shows efficacy on prevention of relapses in MDD. In several studies Lu AA21004 has demonstrated statistically significant separation from baseline versus placebo on the primary endpoints.

**Profile:** Lu AA21004 belongs to a new class of antidepressants. It is a multimodal antidepressant that combines two pharmacological modes of action: reuptake inhibition and receptor activity. Lu AA21004 has demonstrated a low drug-drug interaction potential. The compound is extensively metabolised in the liver and can be absorbed by the body independent of food intake.

Lundbeck collaborates with Japanese Takeda Pharmaceutical Company Limited on development and commercialization of Lu AA21004.

### OPC-34712

OPC-34712 for the treatment of schizophrenia and MDD is being developed in clinical phase III.

**Ongoing clinical programme:** OPC-34712 recently entered clinical phase III studies.

**Profile:** OPC-34712 is a novel investigational psychotherapeutic compound developed to provide improved efficacy and tolerability. The compound has broad activity across multiple monoamine systems and exhibits reduced partial agonist activity at $D_2$ dopamine receptors and enhanced affinity for specific serotonin receptors.

Lundbeck collaborates with Otsuka on development and commercialization of OPC-34712.

### INTRAVENOUS (IV) CARBAMAZEPINE

IV carbamazepine is in development for the treatment of epilepsy.

**Ongoing clinical programme:** In 2009, the FDA requested that Lundbeck recruit more patients for the compound's safety study. As a result, we are enrolling another 100 patients in the study, which is scheduled to be completed in mid-2012. The clinical programme is designed to assess bio-equivalence of intravenous doses compared with oral doses. The studies also investigate side-effects, tolerability and pharmacokinetics of IV carbamazepine relative to orally administered carbamazepine.

**Profile:** IV carbamazepine is a new formulation of the frequently used oral anti-epileptic therapeutic carbamazepine. As a potential first and only injectable formulation of this therapeutic, IV carbamazepine will be an important treatment option for epileptic patients who are prevented from using carbamazepine orally.

### DESMOTEPLASE

Desmoteplase for the treatment of acute ischaemic stroke (blood clot in the brain) entered clinical phase III at the end of 2008. We expect to complete the programme during the first half of 2014.

**Ongoing clinical programme:** Two placebo-controlled clinical phase III studies are each enrolling approximately 400 patients. In consultation with the EMA and FDA, we have designed the studies with the aim of measuring the efficacy of one dose of desmoteplase. One dose is administered in a window between three and nine hours after the stroke occurs. We are recruiting patients for the two studies at international sites in Europe, the US, Canada, South America and Asia. The efficacy of desmoteplase will be assessed after 90 days.

**Profile:** Desmoteplase is the most fibrin-specific plasminogen activator known today. It is a genetically engineered version of a clot-dissolving protein found in the saliva of the vampire bat Desmodus rotundus.

The compound was inlicensed from PAION AG in Germany.

### ZICRONAPINE

Zicronapine has shown a potential to treat a number of psychiatric and neurological diseases. In January 2011 we initiated the clinical phase III programme.

**Ongoing clinical programme:** We expect to enrol about 160 patients for the first study in clinical phase III. The primary objective is to measure the efficacy of zicronapine versus risperidone in terms of impact on key metabolic parameters. Long-term relative safety and efficacy is a key factor in determining appropriate use of newer antipsychotics. We expect to recruit patients in a number of countries in Europe. The pivotal programme is planned to include further clinical phase III studies to investigate the compound's benefit and risk profile.

**Profile:** Zicronapine has a multi-receptorial profile and has shown potent antagonistic effects at dopamine $D_1$, $D_2$ and 5-$HT_{2a}$ receptors. Based on the profile from antipsychotic animal models, zicronapine is expected to show effects in patients with schizophrenia and will most likely be associated with low risk of neurological side effects and a benign safety/tolerability profile.

### LU AA24530

Lu AA24530, which like Lu AA21004 belongs to a new class of antidepressants, completed clinical phase II studies with positive results in 2009.

**Ongoing clinical programme:** The initiation of the planned clinical phase III programme has been postponed with a view to further optimising the development programme. Also, we wish to prioritize the completion of the clinical phase III programme with Lu AA21004.

**Profile:** Studies with rats have demonstrated that treatment with Lu AA24530 leads to increases in acetylcholine (ACh), noradrenaline (NA), dopamine (DA) and 5-HT levels in brain regions that play a key role in the regulation of mood.

The compound is developed in collaboration with Takeda.

### LU AE58054

Lu AE58054 is being investigated for the treatment of Alzheimer's disease. It entered clinical phase II in November 2009 and we expect to complete these studies in the first half of 2012.

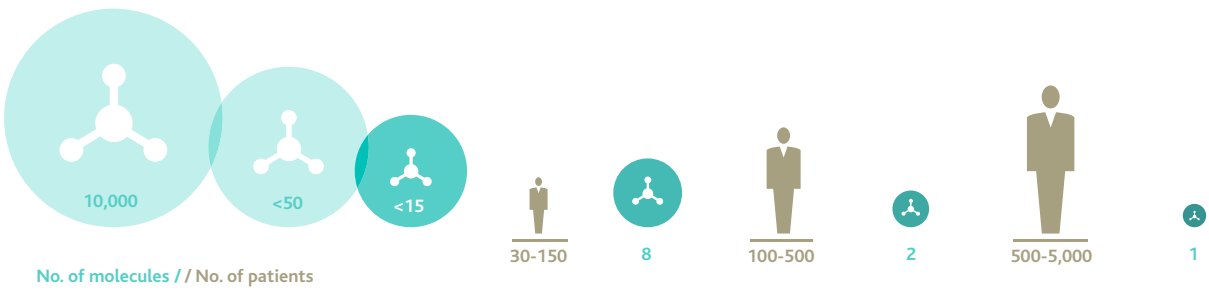
**Ongoing clinical programme:** We are investigating a fixed dose of Lu AE58054 as an add-on to donepezil in patients with moderate Alzheimer's disease. We plan to recruit approximately 270 patients in the study. The purpose of the study is to investigate if treatment with Lu AE58054 improves cognition and functional outcomes after 24 weeks in patients with moderate Alzheimer's disease, who are already undergoing treatment with donepezil.

**Profile:** Lu AE58054 is a potent and selective 5-$HT_6$receptor antagonist. This receptor is primarily found in areas of the brain involved in cognition. Early trials have demonstrated that a 5-$HT_6$receptor antagonist could offer potential in the treatment of disorders such as Alzheimer's disease and schizophrenia.

## COMPOUNDS IN DEVELOPMENT

| Disease | Compound | Phase II | Phase III | Registration application |
|---|---|---|---|---|
| Schizophrenia | **Aripiprazole depot** | | ● (Europe) | ● (US) |
| Alcohol dependence | **Nalmefene** | | | ● (Europe) |
| Depression and anxiety | **Lu AA21004** | | ● | |
| Schizophrenia and depression | **OPC-34712** | | ● | |
| Epilepsy | **IV carbamazepine** | | ● | |
| Stroke | **Desmoteplase** | | ● | |
| Psychosis | **Zicronapine** | | ● | |
| Depression | **Lu AA24530** | ● | | |
| Alzheimer's disease | **Lu AE58054** | ● | | |

## DEVELOPMENT OF A NEW PHARMACEUTICAL PRODUCT




**Preclinical research**
Identify and select active molecules. Evaluate safety profile and pharmacological effects in the laboratory.

New drugs undergo both in vitro (test tubes) and in vivo (animal) testing. Test of 10,000 molecules.

**Phase I**
Human pharmacology: evaluate safety and tolerability, as well as toxicity, absorption, distribution, metabolism and excretion.

Studies in a small group of healthy volunteers. Includes 30-150 people.

**Phase II**
Therapeutic exploratory: explore therapeutic efficacy and safety. Identify correct dosage, how to take the drug and the length of treatment.

Testing the drug at various dose levels in a larger group of patients. Includes 100-500 patients.

**Phase III**
Therapeutic confirmatory: confirm safety and efficacy in the relevant disease and patient population.

Studies in large groups of patients comparing the new drug with a commonly used drug or placebo. Includes 500-5,000 patients.

**Post-marketing**
Further product development in the market.

# MARKETS AND PRODUCTS

## MARKET OVERVIEW

+3%

**CIPRALEX®/LEXAPRO®**

Treatment of depression and anxiety

Revenue (DKKm) 8,492

% of total revenue 53%

+14%

**EBIXA®**

Treatment of Alzheimer's disease

Revenue (DKKm) 2,751

% of total revenue 17%

+15%

**AZILECT®**

Treatment of Parkinson's disease

Revenue (DKKm) 1,187

% of total revenue 8%

+40%

**XENAXINE®**

Treatment of Huntington's disease

Revenue (DKKm) 852

% of total revenue 5%

+73%

**SABRIL®**

Treatment of epilepsy

Revenue (DKKm) 309

% of total revenue 2%

0%

**OTHER PHARMACEUTICALS**

Represent the rest of Lundbeck's products

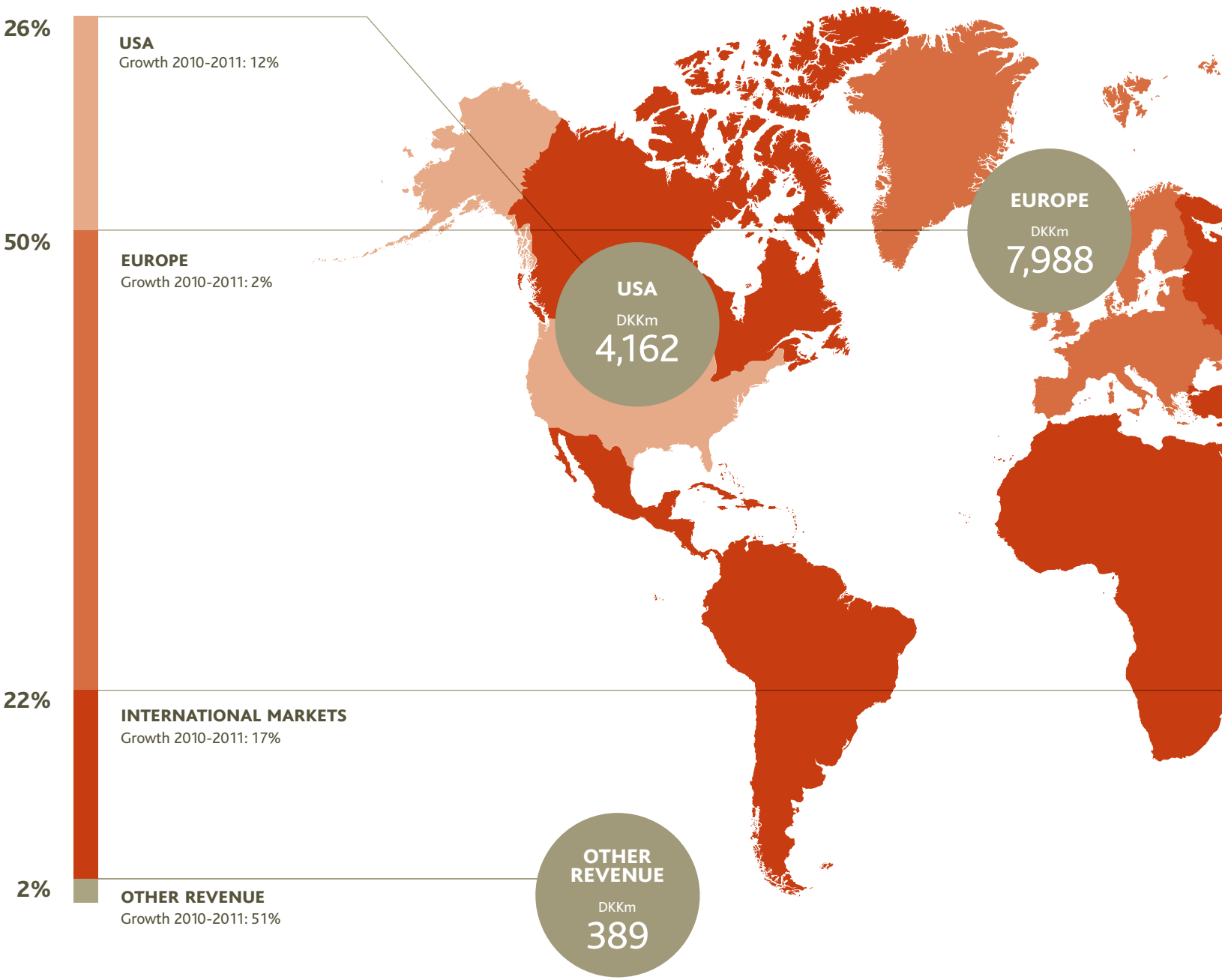
Revenue (DKKm) 2,027

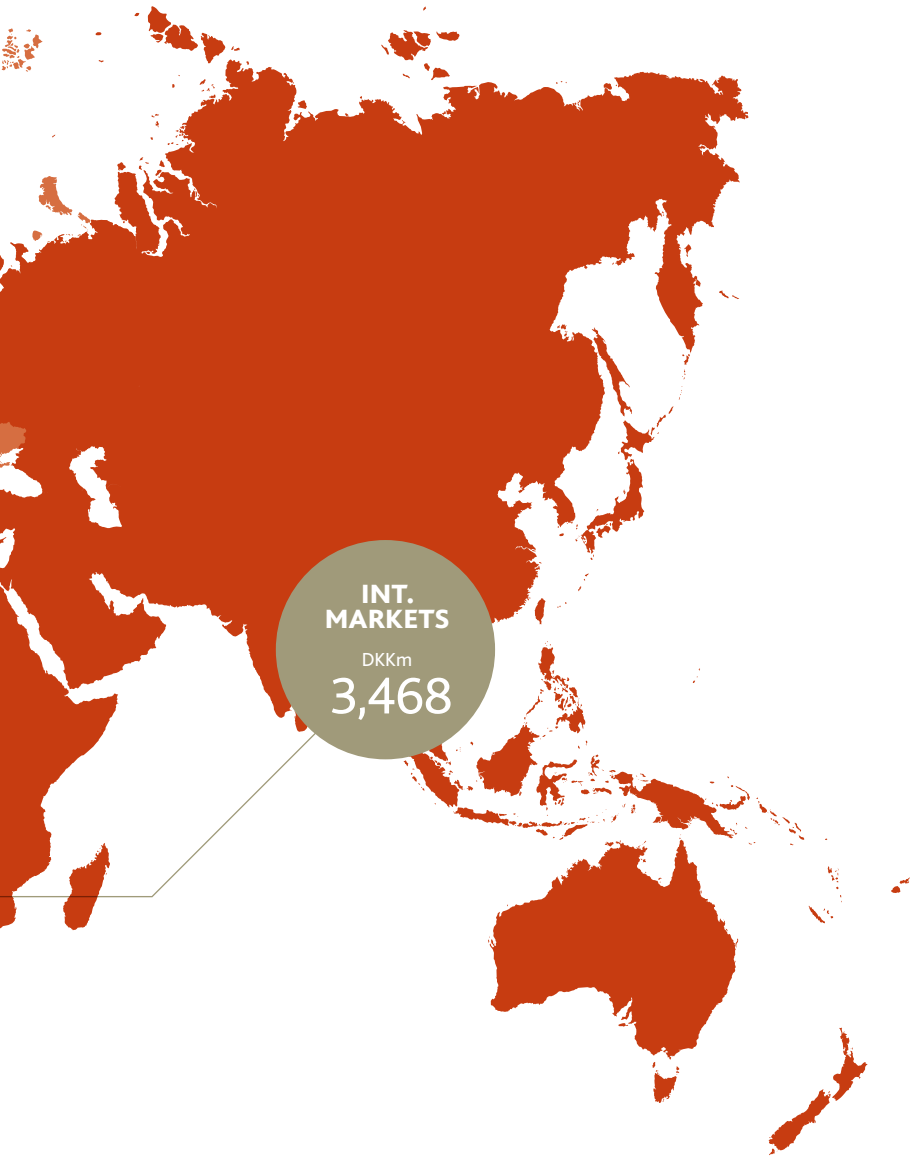
% of total revenue 13%


W 58
WAY
pharmacy

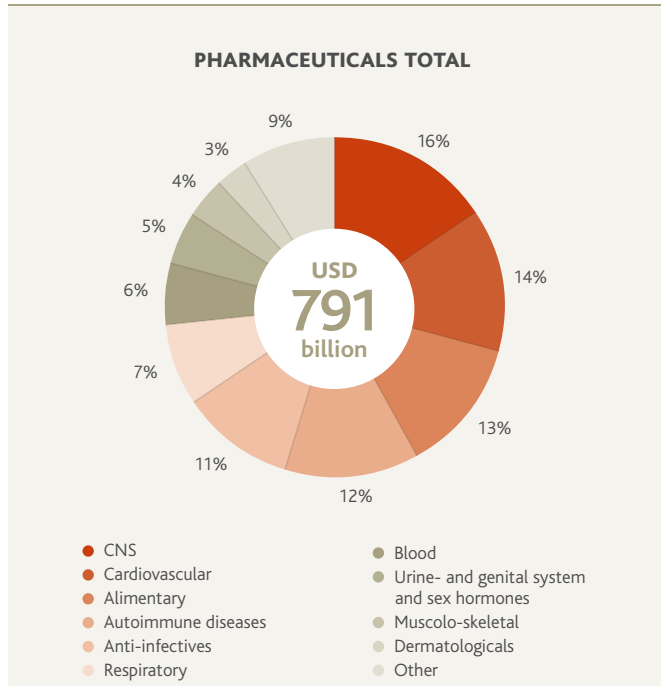
# Revenue by region

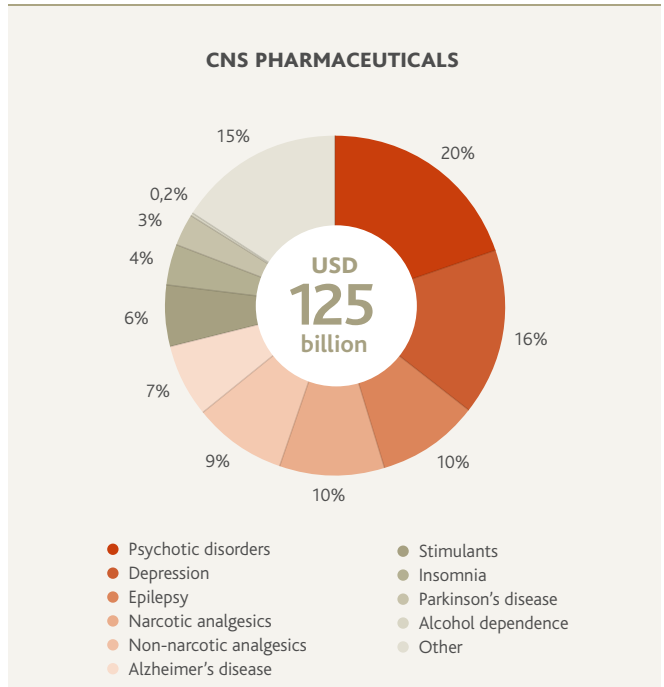
Proportion of total revenue






# Global market for pharmaceuticals 2010•




• IMS World Review 2011

# INCREASING REVENUE AND HIGHER MARKET SHARES

**Increasing revenue and higher market shares in all regions made 2011 a successful year for Lundbeck despite a challenging economic climate and generic competition.**

Operating globally, Lundbeck markets products for the treatment of brain disorders such as depression, epilepsy and psychotic disorders, as well as Alzheimer's, Huntington's and Parkinson's diseases.

In 2011, we launched Saphris®/Sycrest® for the treatment of schizophrenia and manic episodes associated with bipolar disorder. Our Japanese partner Mochida Pharmaceutical Co., Ltd. obtained approval and commenced the launch of our first product in Japan, Lexapro® for the treatment of depression. Finally, Onfi™ for the treatment of Lennox-Gastaut syndrome (epilepsy) was approved in the US and launched in January 2012.

Our revenue rose to DKK 16,007 million in 2011, an increase of 8% relative to 2010. The increase was driven by increasing revenue in all regions and higher market shares for a number of our products. In spite of a continued challenging economic climate and intensified generic competition, 2011 was a successful year for Lundbeck.

**Revenue/growth per product** (DKKm)

| | 2011 | 2010 | Growth | Growth in local currency |
|---|---|---|---|---|
| Cipralex® | 5,957 | 5,808 | 3% | 2% |
| Lexapro® | 2,535 | 2,443 | 4% | 2% |
| Ebixa® | 2,751 | 2,403 | 14% | 14% |
| Azilect® | 1,187 | 1,028 | 15% | 17% |
| Xenazine® | 852 | 610 | 40% | 47% |
| Sabril® | 309 | 179 | 73% | 82% |
| Other pharmaceuticals* | 2,027 | 2,036 | 0% | 1% |
| Other revenue | 389 | 258 | 51% | 48% |
| Total | 16,007 | 14,765 | 8% | 9% |

* Revenue from Saphris®/Sycrest® is included in Other pharmaceuticals.

## RISING MARKET SHARES

**Cipralex®/Lexapro®** (escitalopram) for the treatment of depression and anxiety represents the bulk of our total revenue at 53%. Revenue from Cipralex® rose by 3% to DKK 5,957 million, while sales of Lexapro®, marketed in the US by Forest Laboratories Inc., increased 4% to DKK 2,535 million.

Revenue from **Ebixa®** (memantine) for the treatment of Alzheimer's disease rose to DKK 2,751 million in 2011. This is an increase of 14% relative to 2010. Ebixa®, marketed by Lundbeck in most parts of the world with the exception of Japan and the US, represented 17% of Lundbeck's combined revenue in 2011.

**Azilect®** (rasagiline) for the treatment of Parkinson's disease accounted for 8% of our total sales in 2011. Revenue from the product amounted to DKK 1,187 million, a 15% increase on 2010. Lundbeck has the commercial rights to Azilect® in Europe (we co-promote the product with Israeli Teva Pharmaceutical Industries Inc. in France and the UK) and in some markets outside Europe, including six Asian countries. From January 2012, Teva will on their own market Azilect® in Germany.

**Xenazine®** (tetrabenazine) for the treatment of chorea associated with Huntington's disease generated revenue of DKK 852 million in 2011. This was an increase of 40% relative to 2010, and the product now represents 5% of our total revenue. Lundbeck markets Xenazine® in the US.

**Sabril®** (vigabatrin) for the treatment of refractory complex partial seizures and infantile spasms (IS) generated revenue of DKK 309 million. This equals an increase of 73% relative to 2010 and a share of our combined revenue of 2%. Lundbeck markets Sabril® in the US.

**Other pharmaceuticals**, which represent the rest of Lundbeck's products, including Saphris®/Sycrest® (asenapine), generated revenue of DKK 2,027 million in 2011, corresponding to 13% of our total revenue. In 2011, **other revenue** amounted to DKK 389 million, an increase of 51% relative to 2010. The increase was due to the inclusion of a milestone payment of approximately DKK 200 million from Mochida following the launch of Lexapro® in Japan.

## GROWTH IN ALL REGIONS

### EUROPE

Europe is the world's second-largest region for pharmaceuticals for the treatment of brain disorders, and according to IMS data the value of the market totalled USD 34 billion in 2010. This corresponds to 27% of the global market[21].

Europe remains Lundbeck's largest market, accounting for 50% of our revenue in 2011. The revenue in the region in 2011 was DKK 7,988 million, an increase of 2% relative to 2010.

**Europe** (DKKm)

| | 2011 | 2010 | Growth | Growth in local currency |
|---|---|---|---|---|
| Cipralex® | 3,717 | 3,929 | (5%) | (6%) |
| Ebixa® | 2,323 | 2,040 | 14% | 14% |
| Azilect® | 1,087 | 932 | 17% | 17% |
| Other pharmaceuticals | 861 | 914 | (6%) | (6%) |
| Total | 7,988 | 7,815 | 2% | 2% |

**Cipralex®** showed continued growth in most European markets, generating revenue of DKK 3,717 million in 2011. In spite of this improvement, we experienced a decline in sales of 5% relative to 2010. The reason was partly generic competition for Cipralex® in Finland, Norway and Spain from 2010, and partly withdrawal of Cipralex® from the public German market in 2011[22]. The withdrawal was the result of the German health ministry deciding to pool escitalopram (Cipralex®) and citalopram in one reference price group. However, in December 2011 the fixed reference price for Cipralex® was lifted by a court order with immediate effect. Following, Cipralex® has been reimbursed again in the public market in Germany.

Cipralex® is still the most prescribed branded antidepressant in Europe. In terms of value, it is also the market's largest antidepressant. In November 2011, Cipralex® held a share of 16.7% of the aggregate European market for antidepressants, compared to a market share of 19.4% in November 2010. The declining market share was primarily caused by lower sales in Germany and Spain.

Revenue from **Ebixa®** climbed 14% in 2011 to DKK 2,323 million, and we still experience strong growth in most European countries. At the end of 2010, the National Institute of Health and Clinical Excellence (NICE) decided to support the use of memantine. NICE is an advisory body for the health care authorities in England and Wales, and its decision has positively affected memantine sales in England. Similarly, we continue to see strong sales growth for Ebixa® in Italy after the product was made eligible for reimbursement in 2009. Memantine remains the second-most prescribed pharmaceutical in Europe for treating Alzheimer's disease, and in November 2011, Ebixa® commanded a share of 20.3% of the European Alzheimer's market. This compares to a market share of 17.8% in November 2010.

**Azilect®** generated revenue of DKK 1,087 million in 2011 in Europe, an increase of 17% relative to 2010. Sales of Azilect® are still supported by the results of the ADAGIO study, substantiating that early treatment with Azilect® delays progression of Parkinson's disease[23]. In the same way, results from the TEMPO study substantiate that early treatment with Azilect® provides clear benefits[24]. Sales of Azilect® have surged in France, where the pharmaceutical was made eligible for reimbursement at the end of 2009. In November 2011, Azilect® had a share of 17.8% of the European market for pharmaceuticals to treat Parkinson's disease. The corresponding share for November 2010 was 13.5%.

In April 2011, we launched **Saphris®/Sycrest®** in a number of markets for the treatment of schizophrenia and manic episodes associated with bipolar disorder. The product was inlicensed from US-based Merck & Co., Ltd., and Lundbeck has acquired the rights to all markets outside the US, China and Japan. The launch of Sycrest® for the treatment of manic episodes associated with bipolar disorder was initiated in the European market in 2011. We will continue the launch in several markets in 2012. Outside Europe, Saphris® is indicated for the treatment of manic episodes associated with bipolar disorder and schizophrenia.

**Other pharmaceuticals** declined with 6% relative to 2010 due to decreasing sales in our mature products.

> **OUR PROGRESS IN 2011 IS A RESULT OF INCREASING REVENUE AND HIGHER MARKET SHARES IN ALL REGIONS.**
>
> *Marie-Laure Pochon, Executive Vice President, Commercial Operations*

### USA

Valued at a total of USD 67 billion in 2010, North America is the world's largest market for pharmaceuticals for the treatment of brain disorders[25]. In 2010, the market expanded by 4% relative to 2009, representing 54% of the combined world market in this field. Lundbeck's revenue in the US in 2011 accounted for 26% of total revenue and rose by 12% relative to 2010 to DKK 4,162 million.

**USA** (DKKm)

| | 2011 | 2010 | Growth | Growth in local currency |
|---|---|---|---|---|
| Lexapro® | 2,535 | 2,443 | 4% | 2% |
| Xenazine® | 817 | 577 | 42% | 49% |
| Sabril® | 309 | 179 | 73% | 82% |
| Other pharmaceuticals | 501 | 523 | (4%) | 0% |
| Total | 4,162 | 3,722 | 12% | 13% |

Lundbeck's lead pharmaceutical, escitalopram, is marketed in the US by our partner Forest Laboratories Inc., under the brand name **Lexapro®**. Lexapro® generated revenue of DKK 2,535 million in 2011, which was an increase of 4% compared to 2010. In November 2011, Lexapro® held a market share of 29.6% compared to a market share of 24.3% in November 2010. Due to the launch of generic venlafaxine, the value of the total market has decreased, and as a consequence Lundbeck's market share in value has increased.

Revenue from our US subsidiary, Lundbeck US, rose to DKK 1,627 million in 2011 from DKK 1,279 million in 2010, an increase of 27%. The increase was driven primarily by two of the subsidiary's most recently launched products, Xenazine® and Sabril®.

**Xenazine®** for the treatment of chorea associated with Huntington's disease was launched at the end of 2008, generating 2011 revenue of DKK 817 million in the US, an increase of 42% compared to 2010. We are still seeing strong demand for Xenazine®, and in December 2011 more than 3,400 patients were receiving treatment with this medication.

Revenue from **Sabril®** for the treatment of epilepsy rose in 2011 to DKK 309 million, an increase of 73%. In addition to an increase in the number of patients, we experience a growing demand for Sabril® due to increased compliance rates and increased usage of the pharmaceutical among existing patients.

In October 2011, the FDA granted approval of **Onfi™** (clobazam) for the treatment of Lennox-Gastaut syndrome (epilepsy) in the US. The launch was initiated in January 2012.

**Other pharmaceuticals** decreased with 4% compared to 2010 mainly due to the temporary withdrawal of NeoProfen® (ibuprofen lysine) from the market, as well as impact from the launch of generic chlorothiazide (Diuril®) in December 2009.

## INTERNATIONAL MARKETS

In 2010, the markets outside Europe and the US represented 19% of the total market for pharmaceuticals for the treatment of brain disorders, growing by 10% to USD 24 billion in 2010[26]. In Lundbeck, the International Markets region is defined as markets outside Europe and the US and covers a number of different countries in many of which pharmaceuticals for the treatment of brain disorders are much less readily available than they are in Europe and the US. The region also covers established markets such as Canada, Australia and Japan. Lundbeck's combined revenue in the region amounted to DKK 3,468 million in 2011, an increase of 17% relative to 2010 and corresponding to 22% of total revenue.

Lundbeck is well established in International Markets and we currently have sales subsidiaries in all major markets of the region with the exception of Japan. In 2011, we further strengthened our presence outside Europe and the US; we noticeably strengthened our position in China by signing an improved collaboration agreement on the sale of Lexapro® with Chinese company Xian-Janssen Pharmaceutical Ltd. and by establishing a new research centre in the country. Our first pharmaceutical product in Japan, Lexapro®, has been launched by our partner Mochida. We have signed an agreement with Cephalon, Inc. (now Teva Pharmaceutical Industries Ltd.) regarding a number of innovative pharmaceuticals for the Canadian and Latin American markets.

We will further strengthen our presence in the region in the coming year by continuing the launch of **Saphris®** for the treatment of manic episodes associated with bipolar disorder and schizophrenia in more markets in the region and by preparing the launch of the products inlicensed from Cephalon, including Treanda® (bendamustine HCl) for the treatment of chronic lymphocytic leukemia (CLL) and indolent non-hodgkin lymphoma (NHL).

We see a potential for highly positive growth in International Markets, where we enjoy a well-established position in the region and have prospects of strong growth driven by a continued proliferation of improved treatment options.

**International Markets** (DKKm)

| | 2011 | 2010 | Growth | Growth in local currency |
|---|---|---|---|---|
| Cipralex®/Lexapro® | 2,240 | 1,879 | 19% | 18% |
| Ebixa® | 428 | 363 | 18% | 16% |
| Azilect® | 100 | 96 | 4% | 16% |
| Other pharmaceuticals | 700 | 632 | 11% | 12% |
| Total | 3,468 | 2,970 | 17% | 17% |

In 2011, our first pharmaceutical product was launched in Japan. In August, our Japanese partner Mochida, in cooperation with Japanese company Mitsubishi Tanabe Pharma Corporation, initiated the marketing of **Lexapro®** in Japan. The launch is supported by a very skilled sales force, which is substantially larger than the norm for similar product launches in Japan.

We are pleased to finally be able to offer our leading antidepressant in Japan. The Japanese market was valued at JPY 135 billion in 2010 (approximately DKK 9 billion) according to IMS Japan[27]. This was an increase of 11% compared to 2009. The number of patients with depression visiting a doctor and receiving treatment in Japan is increasing every year and is currently estimated to exceed one million. Lundbeck will receive a pre-arranged royalty payment, defined as a double-digit percentage of Mochida and Mitsubishi's combined revenue from Lexapro® in Japan. We report this royalty as part of the total Cipralex® revenue in International Markets.

By the end of November 2011, Cipralex® held a market share of 1.9% of the aggregate market for antidepressants in Japan.

**Cipralex®/Lexapro®** generated revenue of DKK 2,240 million in 2011, an increase of 19% compared to 2010. The increase was driven especially by continued revenue growth in the Canadian market, where Cipralex® was made eligible for public reimbursement in Ontario and British Columbia in 2009. In November 2011, Cipralex® held a market share of 18.7% of the aggregate market for antidepressants in Canada, against 13.9% at the same time in 2010. Cipralex® sales are also growing in Asia and Latin America, where revenue continues to improve despite of generic competition. We are strengthening our position in China with an improved collaboration agreement concerning Lexapro®. This means that we share a competent sales force with Xian-Janssen that can pursue our goal of becoming the market leader in the attractive Chinese market. In November 2011, Cipralex®/Lexapro® held a share of 12.3% of the aggregate market for antidepressants in International Markets, compared to a market share of 11.3% in November 2010.

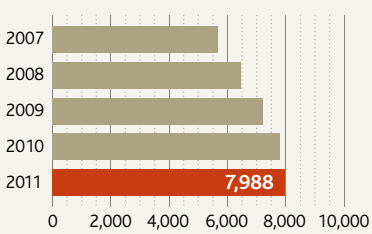
Sales of **Ebixa®** continue to grow, and revenue amounted to DKK 428 million. Sales improved by 18%, driven by continuing growth in most countries. The

improvement was due to underlying market growth and a rising market share in countries such as China. In November 2011, Ebixa® commanded a share of 8.6% of the international Alzheimer's market compared to a market share of 8.8% at the same time in 2010.

**Azilect®** has so far only been launched in a few markets in the region. In 2010, Lundbeck acquired the rights to Azilect® in six Asian countries, including China and South Korea. The regulatory process is underway, and we expect to launch the product in the first countries in 2012.

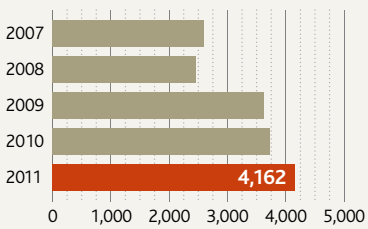
**Other pharmaceuticals** generated revenue of DKK 700 million in 2011 in International Markets, an increase of 11% relative to 2010. The increase was driven by higher sales of some of our more mature products in the region.

**Revenue Europe 2007-2011** (DKKm)



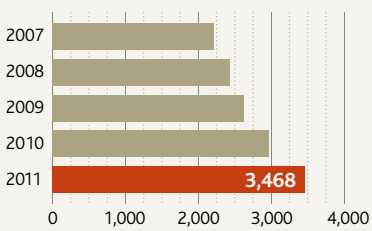

Growth 2010-2011
**2%**

**Revenue USA 2007-2011** (DKKm)



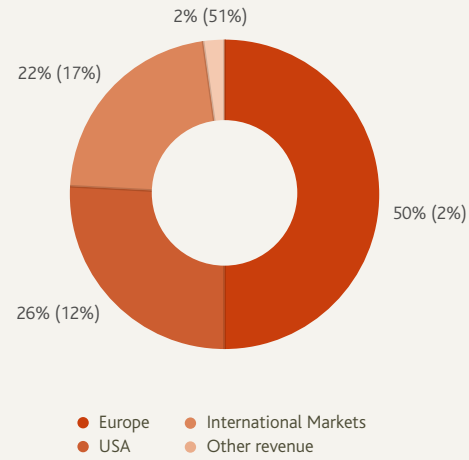

Growth 2010-2011
**12%**

**Revenue International Markets 2007-2011** (DKKm)




Growth 2010-2011
**17%**

**Revenue/growth per region 2011**




**Lundbeck's marketing partners**

| | |
|---|---|
| Almirall, S.A. | Cipralex® (Spain) |
| Biovail Laboratories International | Xenazine® |
| ELPEN Pharmaceutical Co. Inc. | Cipralex® (Greece) |
| Forest Laboratories Inc. | Lexapro® (US) |
| Merck & Co., Ltd. | Saphris®/Sycrest® |
| Merz Pharmaceuticals GmbH | Ebixa® |
| Mitsubishi Tanabe Pharma Corporation | Lexapro® (Japan) |
| Mochida Pharmaceutical Co., Ltd. | Lexapro® (Japan) |
| Recordati S.p.A. | Cipralex® (Italy) |
| Teva Pharmaceutical Industries Ltd.• | Azilect®, Treanda® and others |
| Xian-Janssen Pharmaceutical Ltd. | Lexapro® (China) |

• Teva acquired Cephalon, Inc. in 2011.

# DISEASE AREAS

## ALZHEIMER'S DISEASE

Alzheimer's disease is believed to affect 6.1% of the population over the age of 65. Today, about 60% of all Alzheimer's patients are correctly diagnosed, and of these about 60% are diagnosed with either moderate or severe Alzheimer's disease. It is estimated that more than 7.5 million people in the Western world suffer from Alzheimer's disease. The number of people in the Western world being treated for Alzheimer's disease is therefore expected to grow by about 2.8% per annum until 2020[28].

The market for pharmaceuticals for the treatment of Alzheimer's disease increased by 12% in 2010 to USD 8.4 billion relative to 2009. It is a market that continues to grow strongly. There is still no treatment available to cure the disease or slow its progression, so a huge unmet medical need persists.

The most frequently used pharmaceuticals for the treatment of Alzheimer's disease are acetylcholinesterase inhibitors which can stabilize disease symptoms for a short period (donepezil, rivastigmine and galantamine), and memantine, which is an NMDA receptor antagonist that also offers symptomatic relief.

Lundbeck markets memantine under the Ebixa® brand.

**7.5 million**

people in the Western world suffer from Alzheimer's disease

## DEPRESSION

It is estimated that more than 40 million people in the Western world[29] currently suffer from depression. Estimates are that only about half of the people suffering from depression are correctly diagnosed, while only about 80% of the diagnosed patients receive treatment. It is also estimated that the number of people receiving treatment for depression in the Western world will grow by 1.4% each year until 2019[30].

The market for antidepressants was valued at approximately USD 20 billion in 2010, an increase of 3% compared to 2009. The market expanded in spite of patent expiry for a number of pharmaceuticals and the launch of cheaper generics.

The most frequently used pharmaceuticals for the treatment of depression are selective serotonin re-uptake inhibitors (SSRIs such as citalopram, fluoxetine, paroxetine, sertraline etc.), which were launched in the 1980s. This group of pharmaceuticals is characterised by fewer side effects than previous antidepressants.

In most markets, Lundbeck markets escitalopram under the Cipralex® brand name, although it is sold under the Lexapro® brand in a few markets. Forest Laboratories Inc. markets escitalopram in the US under the Lexapro® brand name, as does Mochida Pharmaceutical Co., Ltd. in Japan and Xian-Janssen Pharmaceutical Ltd. in China.

**40 million**

people in the Western world suffer from depression

## EPILEPSY

**Refractory complex partial seizures and infantile spasms:** Complex partial seizures (CPS) is the most common epilepsy. It is estimated that approximately 850,000 people in the US suffer from CPS, and an estimated 200-250,000 of these patients are refractory, i.e. difficult to treat.

Vigabatrin, marketed by Lundbeck in the US under the brand name Sabril®, is approved for this difficult-to-treat type of epilepsy.

**Infantile spasms** affect an estimated 2,500 infants every year in the US. The disease usually strikes infants between three to six months of age.

There are only two pharmaceuticals for the treatment of infantile spasms, one of which is vigabatrin under the brand name Sabril®.

**Lennox-Gastaut syndrome** is a rare and severe form of epilepsy that is typically diagnosed in childhood and often persists into adulthood. The prevalence has been estimated at 1-4% of all childhood epilepsies, although figures as high as 10% have been reported. There are 23,000-75,000 people with Lennox-Gastaut syndrome in the US alone.

Clobazam is an adjunctive therapy offering an additional seizure management option for patients two years and older affected by this severe neurological disorder.

In the US, clobazam is marketed by Lundbeck under the Onfi™ brand.

**>23,000**

people in the US suffer from Lennox-Gastaut syndrome

## PARKINSON'S DISEASE

More than 3.2 million people in the Western world suffer from Parkinson's disease, of whom a little over 90% are believed to receive treatment. The number of people in the Western world being treated for Parkinson's disease is expected to grow by about 3% per annum until 2019[31].

The global market for pharmaceuticals to treat patients with Parkinson's disease grew by 4% in 2010 relative to 2009. This corresponds to about USD 4 billion.

There are a number of pharmaceuticals on the market that only offer symptomatic treatment in the various stages of the disease. The most commonly used compound for the treatment of Parkinson's disease is levodopa, which was developed more than 40 years ago. Since then a number of pharmaceuticals have been launched. Dopamine agonists (rasagiline, pramipexol, ropinirol, rotigotine etc.) command the bulk of the market and have become very popular in recent years, especially for the treatment of early-stage disease.

Rasagiline, a MAO-B inhibitor which is used both as monotherapy and in combination treatment with other pharmaceuticals for the treatment of Parkinson's disease, is the only pharmaceutical which in studies has substantiated a disease-modifying effect.

Lundbeck markets rasagiline under the Azilect® brand.

**3.2 million**

people in the Western world suffer from Parkinson's disease

## PSYCHOTIC DISORDERS

**Bipolar disorder** (manic depression) is a form of psychotic disorder that is difficult to diagnose and treat. It is estimated that bipolar disorder affects 30 million people around the world, including four million in Europe. The market for adult patients suffering from bipolar disorder in Europe remains characterised by undertreatment.

**Schizophrenia** is a highly difficult-to-treat psychotic disorder, which is associated with a high degree of stigmatisation. It is estimated that schizophrenia affects 26 million people worldwide.

The atypical antipsychotic asenapine is a new treatment option for patients suffering from these diseases. Asenapine has been approved for the treatment of moderate to severe manic episodes associated with bipolar I disorder in adults in Europe.

Lundbeck markets asenapine in the EU under the Sycrest® brand. Outside Europe, asenapine has also been approved for the treatment of schizophrenia. Lundbeck has the rights to the compound in all markets outside the US, China and Japan and markets it under the Saphris® brand.

**30 million**

people around the world are affected by bipolar disorder

## HUNTINGTON'S DISEASE

In the US alone, approximately 20,000 people suffer from Huntington's disease, for which there is currently no cure, nor any effective treatment.

Tetrabenazine, approved for the treatment of chorea associated with Huntington's disease, is the only pharmaceutical approved for the treatment of symptoms associated with Huntington's disease.

In the US, tetrabenazine is marketed by Lundbeck under the Xenazine® brand.

**20,000**

people in the US suffer from Huntington's disease

### WORLD MARKET FOR CNS

The market for pharmaceuticals to treat brain disorders remains the world's largest pharmaceutical area. The market was valued at USD 125 billion in 2011, corresponding to 16% of the global pharmaceutical market[32].

# RESPONSIBILITY AND MANAGEMENT

## GEOGRAPHICAL SPLIT
(NUMBER OF EMPLOYEES)

6,047
WORLDWIDE

2,046
DENMARK

2,380
EUROPE
(EXCL. DENMARK)

460
USA

1,161
INTERNATIONAL MARKETS

## AVERAGE AGE (YEARS)

41

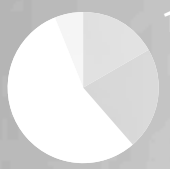
## AGE DISTRIBUTION

| Years | |
|---|---|
| 18-25 | 4% |
| 26-34 | 23% |
| 35-45 | 44% |
| 46-55 | 22% |
| 55+ | 7% |

## SENIORITY DISTRIBUTION

| Years | |
|---|---|
| 0-1 | 26% |
| 2-5 | 29% |
| 6-10 | 25% |
| 11-16 | 12% |
| 16+ | 8% |

## ORGANIZATIONAL OVERVIEW BY BUSINESS UNIT



# CORPORATE RESPONSIBILITY

**The purpose of Lundbeck's Code of Conduct is to increase employees' knowledge of corporate responsibility, improving skills in this area and thus helping to influence the company's actions. We include corporate responsibility into our supplier contracts to ensure that our partners live up to Lundbeck's standards.**

The UN Global Compact is Lundbeck's strategic framework for its activities in the field of corporate social responsibility. There is strong alignment between our corporate strategy and our promotion of the principles of human and labour rights, environmental protection and anti-corruption as well as our regular progress reporting. This is articulated in our Code of Ethics that addresses internal as well as external drivers for the ethical standards that govern our conduct. In 12 brief statements it specifies our business responsibility, environmental impact and social influence.

Acting responsibly is one of Lundbeck's values: it is and has always been our way of doing business. In 2010, more than 130 key employees from our global organization helped translate the Code of Ethics into practical actions and thereby to define what we mean by being responsible and doing the right thing.

These endeavours resulted in Lundbeck's Code of Conduct, which consists of a number of principles and specific guidelines for our employees. It aims at covering aspects of our day-to-day work and relations with health care professionals, patients, patients' associations, public authorities, scientists and business partners, as well as other stakeholders in society.

Along the way, we consulted business ethics experts to obtain a quality assurance of our process and the end result. In a positive conclusion to their review, they emphasised the importance of incorporating the Code of Conduct in business procedures across the Lundbeck organization, and this laid the groundwork for one of our key corporate responsibility initiatives in 2011.

| LUNDBECK'S STRATEGIC AREAS FOR CORPORATE RESPONSIBILITY AND ACHIEVEMENTS IN 2011 | PRINCIPLES IN THE UN GLOBAL COMPACT | | | |
|---|---|---|---|---|
| | Human rights | Labour rights | Environment | Anti-corruption |
| **Ethics and behaviour**<br>Code of Conduct implemented in business procedures throughout the organization | ● | ● | ● | ● |
| **Supplier standards**<br>New global procedure implemented to pass on the principles of the UN Global Compact and Code of Conduct to Lundbeck's collaboration partners | ● | ● | ● | ● |
| **Access to health**<br>Strategy defined, including activities to promote access to health | ● | | | |
| **Health, safety and environment**<br>Strategy adopted with new ambitious targets for reducing carbon emissions and the number of work-related accidents | | ● | ● | |
| **Transparent reporting**<br>Communication on Progress report to the UN Global Compact and continuing recognition from FTSE4GOOD. | ● | ● | ● | ● |

## COMPETENCE RATHER THAN RULES

The objective of introducing a Code of Conduct was to create a clear framework for and competences in making the right choices. The means to achieve this was to train employees in handling dilemmas and doing so within the framework defined by the Code of Conduct.

All Lundbeck departments and subsidiaries organised workshops for employees on dealing with ethical dilemmas that were particularly relevant to them. Example situations could be about avoiding conflicts of interest, handling sensitive information, collaborating with suppliers and partners, evaluating marketing practice or carrying out clinical research. More than 250 workshops have already been held, followed up by individual training and testing. Feedback has been very positive, and the test results show that our employees have a clear understanding of Lundbeck's position on the topics dealt with in the Code of Conduct.

In addition to ensuring completion of the mandatory training, a total of 97 senior managers including country managers have been responsible for providing documentation on how the Code of Conduct principles are observed and incorporated in their local business procedures. The dialogue between these managers and Lundbeck's legal department during the process has helped build clarity about the interpretation of the requirements without removing the responsibility from local management.

The introduction of Lundbeck's Code of Conduct has confirmed that responsibility is a strength in our corporate culture. The process has also helped us identify areas in which we will now intensify coordination across the organization to achieve improvements. The knowledge we have gathered on local interpretations of our Code of Conduct will be retained and maintained through quarterly reports and follow-up visits to Lundbeck's business units and subsidiaries.

## RESPONSIBILITY IN CONTRACTS

Our Code of Conduct describes matters of importance to our relations with and responsibilities towards society. An example is when, each year, Lundbeck buys products and services for billions of Danish kroner across several thousand suppliers and business partners throughout most of the world. For the past six years, suppliers to Lundbeck's production have been required to undergo a specific evaluation of their business affairs, quality, and protection of people and the environment before they were approved as suppliers. Since 2009, we have worked to extend our requirements to apply to agreements with collaboration partners, and we have added anti-corruption requirements. Our extensive efforts to define a global procurement policy, a global evaluation procedure, and related tools were completed in 2011 when relevant employees received training.

The demands we will now be making on our suppliers and collaboration partners are rooted in the UN Global Compact and Lundbeck's Code of Conduct. The procedure we will apply involves an initial assessment of the desired product or service, the geographical location of the supplier and the value of the purchase. If one of these parameters is classified as critical, a potential business partner will be required to provide documentation for transparent corporate governance, adequate control of quality and business ethics, the health and safety as well as human and labour rights of the employees, and prevention of environmental pollution. The documentation will then be assessed by Lundbeck specialists. This process often entail additional dialogue and, in some cases, a visit to the supplier before we initiate contract negotiations. Requirements regarding compliance with the ten UN Global Compact principles on human rights, employee rights, environmental protection and anti-corruption have now been embedded in Lundbeck's supplier contracts.

Third parties must comply with the principles of Lundbeck's Code of Conduct. Third parties are external professionals or businesses carrying out assignments within Lundbeck's core business areas on our behalf or in our material interest. Such areas include research and development, production, distribution or marketing of Lundbeck's products as well as interaction with authorities and other stakeholders. We have begun a dialogue with these third parties with the purpose of incorporating our requirements in all new and the most important existing contracts by the end of 2012.

We will maintain an open dialogue about this process with our suppliers, partners and other stakeholders. Additional information and relevant documents are available on http://www.lundbeck.com/global/corporate-responsib.

## BUSINESS COMMUNITY AND HUMAN RIGHTS

The relationship between the business community and human rights is becoming increasingly well-defined. In 2011, the UN Human Rights Council endorsed the 'Protect, Respect and Remedy'[33] framework with support from all major stakeholders. Lundbeck supports and respects the universally declared human rights. Besides the aspects of human rights that we have a direct responsibility for as an employer, we believe that our influence on human rights is significant in two specific areas: Through our global procurement processes and in connection with the promotion of access to health.

> **WE BELIEVE THAT HEALTH IS A HUMAN RIGHT AND HAVE DEFINED A STRATEGY OF HOW WE CAN HELP IMPROVE PEOPLE'S ACCESS TO TREATMENT OF BRAIN DISORDERS.**
>
> *Ulf Wiinberg, President and CEO*

The WHO constitution clearly states that health is a human right. Lundbeck's endeavours to develop the best treatments for humans affected by brain disorders therefore involve more than simply the particular responsibility we have as a manufacturer of pharmaceuticals. We have also decided to define and publish a global strategy describing how we can promote the access to health for people affected by brain disorders.

Our Access to Health Strategy is based on an ongoing communication with stakeholders that aims to identify their needs and attitudes towards what a global enterprise such as Lundbeck can and should do. Besides engaging with stakeholders, another key element in the strategy is the three overall themes that in our view are pivotal in promoting health: Knowledge, Prevention and Treatment.

The strategy sets the stage for both well-known and new activities. The Lundbeck Institute is one of the well-known activities, and we will also be launching a number of other activities aimed at external stakeholders, along with activities with purely internal objectives aimed at increasing awareness among our employees of the societal value of their work.

The strategy is intended to act as a platform for collaboration between Lundbeck and local stakeholders. We hope that it will inspire and strengthen the building of networks, and we invite everyone to take part in advancing Lundbeck's initiatives in promoting access to health. The full wording of the strategy is available on http://www.lundbeck.com/global/corporate-responsib.

## MISUSE OF PRODUCT IN THE US

Lundbeck is dedicated to improving the quality of life for people suffering from brain disorders. However, in 2011 we learned that Nembutal® (pentobarbital), which is developed for the treatment of severe and life threatening epilepsy and is marketed in the US by Lundbeck, was also used in relation to capital punishment in US prisons. Lundbeck has strongly protested against this misuse, and after a thorough investigation, we established a new distribution system which ensures access to medication for the people who need it, while restricting prisons' access to the drug. In December 2011, Lundbeck divested a portfolio of products in the US, including Nembutal®, as part of our long-term strategy. The terms of the transaction include continued enforcement of the restricted distribution programme for Nembutal®.

## A GREEN, SAFE AND HEALTHY WORKPLACE

Lundbeck's health, safety and environment (HSE) strategy has produced good results for a number of years now. As a result, we can currently manufacture more pharmaceuticals while using fewer raw materials and less energy, generating less waste and emitting less $CO_2$ than ever before.

Our $CO_2$ strategy defines a goal of emitting 11,800 tonnes less $CO_2$ in 2016 than we did in 2006. We reached that level as early as in 2011 through a long-term, cross-organizational collaboration to reduce energy consumption and employ cleaner technologies. A specific example is our boiler plant in Lumsås, Denmark, which was converted to run on bio fuel instead of diesel fuel, a conversion that halved the facility's annual $CO_2$ emissions. Our efforts to reduce $CO_2$ emissions will continue in the years ahead, and we expect to raise our bar for carbon emissions for 2016 even higher.

As far as health and safety are concerned, we have reduced both the number of accidents and the number of workdays lost per accident. A contributing factor to this positive development was setting up a working group which systematically reviews all work-related accidents and shares the accident-prevention knowledge thus gained. Furthermore, health and safety considerations have been incorporated in our LEAN activities, and at the same time work-related accidents and near misses are addressed weekly at LEAN meetings.

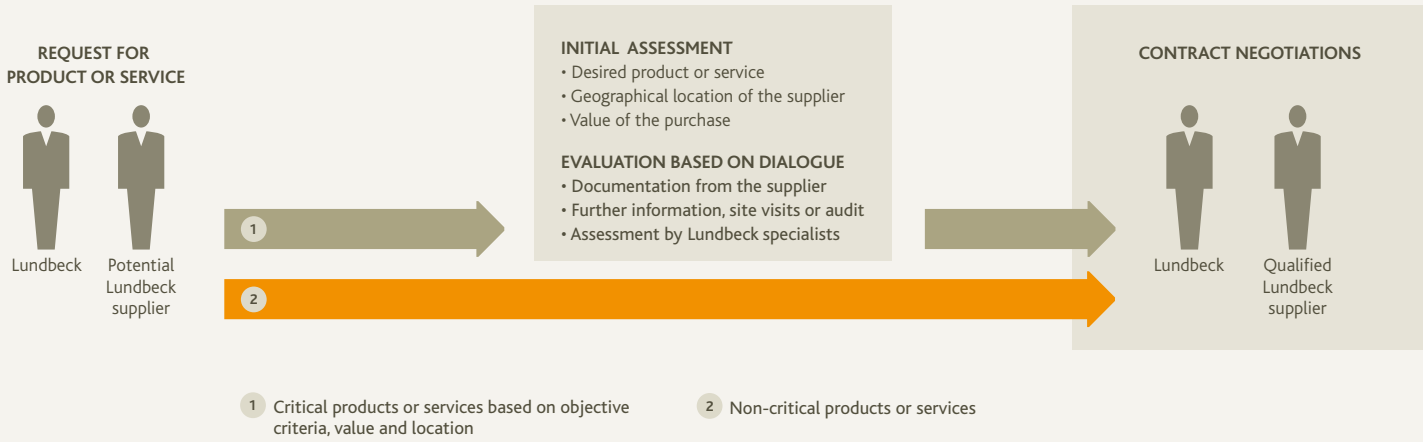
The strength of Lundbeck's HSE efforts lies in the integration of HSE into decision-making processes, and our updated HSE strategy increases this focus. The incorporation of a new procedure in our development process is an example of what this integration entails. The procedure will ensure that new pharmaceuticals are tested for allergenic properties as part of the product development process. It will provide new knowledge that allows our health and safety experts to advise more specific about optimal workplace design and safe handling of substances. Another example is our systematic risk assessment of health, safety and the environment in new facilities, buildings and processes, intended to prevent problems. An example is Lundbeck's new distribution centre in Valby, Denmark; before starting construction, we assessed all relevant HSE risks. This helped minimise heavy lifting and noisy traffic, among other things. We will be sharing what we learned with colleagues in other parts of Lundbeck in coming years.

For many years, Lundbeck has offered its employees smoking cessation courses, dietary counselling, exercise and other activities to promote their health and well-being. We wish to strengthen these initiatives, so health promotion is now a priority area in Lundbeck's HSE strategy.

## PURIFICATION AND RECYCLING OF SOLVENTS

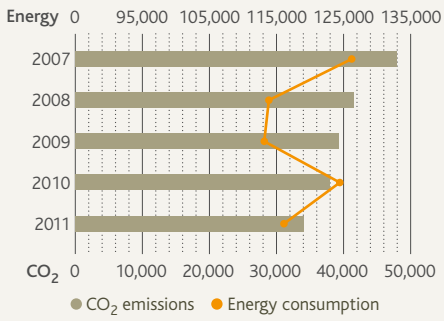
In 2011, Lundbeck's chemical production in Lumsås, Denmark, further increased its focus on recycling solvents. After installing a fractionating column, we are now able to purify solvents 50 times more effectively than before. As a result, post-purification solvents can be reused in all processes, over and over again. So far, this process has successfully been adopted for the solvent toluene; our plan is to use it for other solvents as well. The process offers both environmental and financial benefits. In environmental terms, purification leads to lower consumption of new solvents and lower volumes of waste. It is also much less expensive to purify and reuse a solvent than to buy new ones. In 2011, the new process allowed us to recycle 458,893 litres of toluene, corresponding to 52% of the total volume of toluene used at Lumsås.

## SUPPLY EVALUATION PROCESS

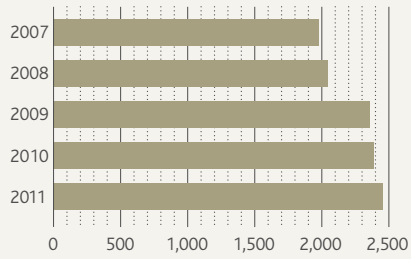



## HEALTH, SAFETY AND ENVIRONMENT

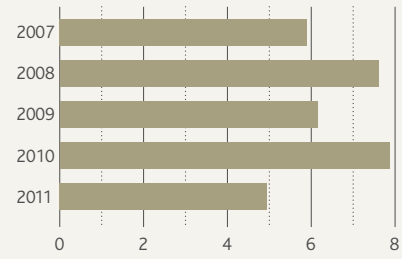
**$CO_2$ and energy** (tonnes and MWh)



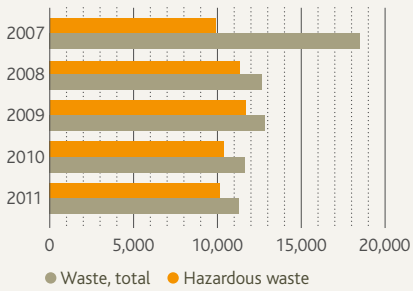

**Production** (million units)



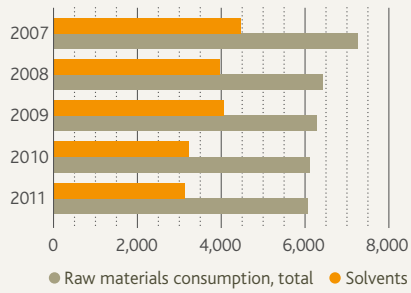

**Lost-time accidents**
(frequency per one million work hours)




**Waste** (tonnes)




**Raw materials** (tonnes)




Over the course of a number of years, Lundbeck has achieved positive environmental results. Although our pharmaceutical and chemical production volumes rose by 2.7% and 7.0% respectively from 2010 to 2011, consumption of raw materials and energy declined by 0.8% and 7.9% respectively. A positive trend was also seen in waste volumes, which declined by 3.0% during the same period. More waste is now being reused or recycled. Regarding health and safety, we have reduced the number of accidents by 37% as well as reduced the number of workdays lost per accident relative to 2010.

# RISK MANAGEMENT

**Overview, monitoring and the ability to respond are key prerequisites for good risk management. Lundbeck's risk register provides an overview of our risk exposure. At the same time, ongoing adjustment of the risk management processes ensures an updated, aligned and continuous approach to handling our risks.**

The balance between risk exposure and generation of value is the pivotal aim of Lundbeck's risk management. We seek to create a reasonable balance between risk management processes which are consistently updated and adapted to match intra-Group and external requirements and needs. In this way, our Corporate Management Group obtains an overview of the activities and resources available while at the same time securing a solid basis for decisions regarding the overall risk exposure.

Lundbeck's risk management organization reports to a central Risk Office. Our fundamental risk management principle is that risks, in addition to central monitoring and coordination, should be managed by decentralised units as they have the most extensive knowledge of such risks and the best possibility of mitigating the exposure. The individual business units take a systematic approach to monitoring, identifying, quantifying and responding to risks. Furthermore, we have defined reporting, decision-making and follow-up procedures and routines.

We assess the probability of an event occurring and the potential impact for Lundbeck in the form of a potential financial loss or damaged reputation. The decentralised risk evaluation in the business units is regularly reported and processed by the risk management organization.

## RISK REPORTING

The Risk Office evaluates Lundbeck's overall risk exposure in an ongoing process. The evaluation is based on business units reporting and updating the principal risks in their area. We use a risk register for reporting and controlling our consolidated risk exposure.

**The risk register contains the following information about a given risk:**
- Description
- Current status
- Current reaction and subsequent handling
- Assessment of probability and potential impact
- Person responsible for managing the risk

### RISK MANAGEMENT


**February**
- The Board of Directors publishes the annual report, incl. a section on risk management

**April**
- Risk Office evaluates risk exposure
- The Board of Directors submits the first quarter report, incl. any changes to risk exposure

**August**
- Risk Office evaluates risk exposure
- The Board of Directors submits the second quarter report, incl. any changes to risk exposure

**September**
- Risk Office initiates an update of risk exposure as an integral part of the budget process

**October**
- Corporate Management Group reviews the updated risk exposure

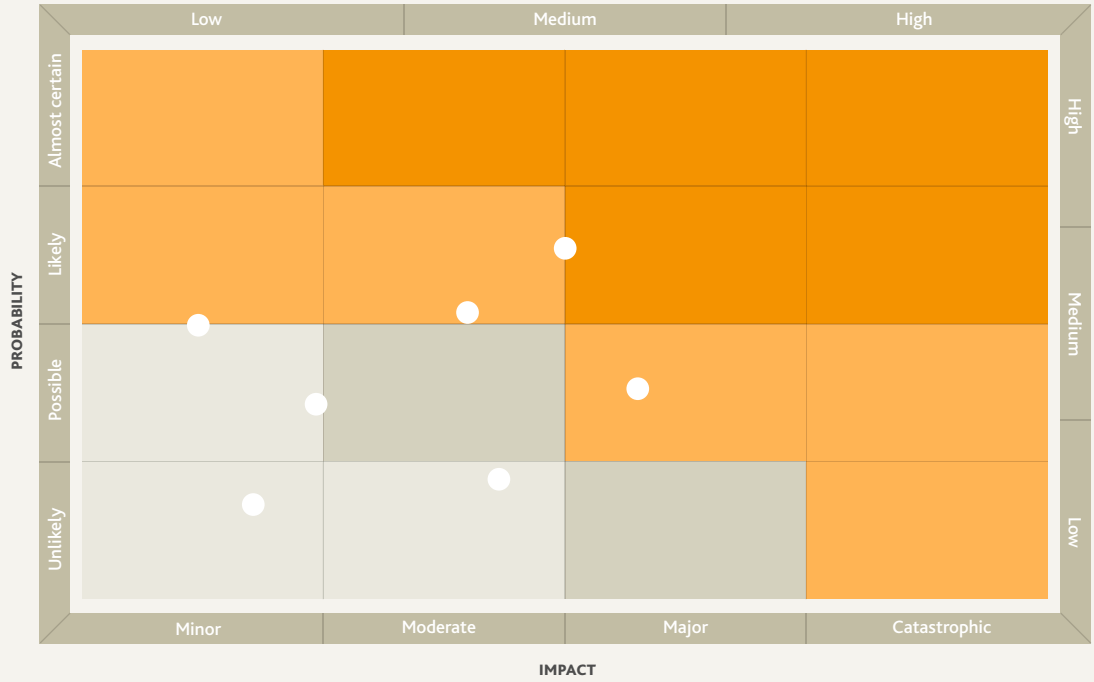
**November**
- Presentation of risk exposure to Audit Committee and Board of Directors
- The Board of Directors submits the third quarter report, incl. any changes to risk exposure

## RISK MAPPING

**RISK MAPPING**
Risk mapping is one of Lundbeck's risk management activities. For each identified risk, we assess the probability of the event occurring and the potential impact.

We use risk mapping to obtain an overview of our risk exposure, comparing probabilities and impact.

The white markings are for illustrative purposes only.




The Risk Office assesses our overall risk exposure and discusses it with the Corporate Management Group. Risks are assessed both as gross risks and net risks. The assessment of gross risk assumes that no mitigating actions have been implemented, whereas net risk assessment takes into account mitigating actions already implemented and their anticipated effect. Lundbeck strives to have as many risks mitigated as possible. Subsequently, risks and risk exposure are presented to the Audit Committee. Risk reporting forms an integral part of Lundbeck's overall reporting process.

**The risk register divides the identified risks into six categories:**
- Research and development
- Market conditions
- Infrastructure
- Reputation
- Legal rights
- Financial matters

## RESEARCH AND DEVELOPMENT

Lundbeck's research and development strategy aims at developing innovative pharmaceuticals. However, there are risks involved in launching new pharmaceuticals and new treatment options for known diseases. Throughout the research and development process, there is a risk that new pharmaceuticals will be delayed or have to be abandoned altogether. In each of our late-stage projects, we thoroughly assess if factors such as the initiation of new clinical trials or additional support in ongoing clinical trials could lead to a more successful completion of the project.

## MARKET CONDITIONS

The pharmaceutical market, especially in Europe, is characterised by authorities' aim to cap or reduce increasing health care costs. These cost containment measures are structured in several ways such as regulation of prices, reimbursement or increasing requirements to demonstrate added value in comparison to already existing products. Such health care reforms may have a considerable impact on the earnings potential of pharmaceuticals in the coming years. For example, in 2011 Lundbeck experienced significant changes in countries such as Greece, Portugal, Spain and Turkey.

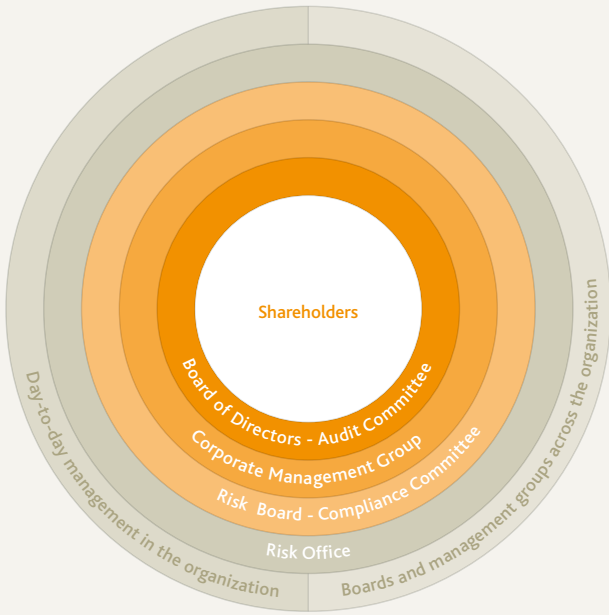
Increasing debts have compelled governments to reduce public budgets, and some savings were found in comprehensive price reductions. Uncertainty surrounding public debts and further cost containment measures is considered a continuing and increasing risk factor in 2012.

We are working with the health care authorities around the world to document the value of our pharmaceuticals, for example by preparing health-economic assessments. Also, we are continuously seeking to adapt our organization and activities to the changed market conditions.

## INFRASTRUCTURE

It is crucial for patients to always have access to the pharmaceuticals they need. As a pharmaceutical manufacturer, we therefore need to be able to control our reliability of supply. We carefully monitor the supply situation and as a rule

## RISK MANAGEMENT ORGANIZATION




maintain an inventory level that will help us overcome a production breakdown. To mitigate production risks, we currently have production and packaging facilities at four independent sites: Lumsås and Valby (Denmark), Padova (Italy) and Sophia-Antipolis (France). In this way we enhance flexibility in our pharmaceutical production, while we also reduce our costs, relying less on external suppliers.

In rare cases, pharmaceutical companies are forced to recall a product from the market due to a problem with the safety or quality of the pharmaceutical. We have systems and procedures in place to ensure a swift and effective response if the need should arise.

Lundbeck's business model also includes partnerships which offer a number of benefits, but also mean that we do not retain full control of the individual projects and products. However, through close and open dialogue with our partners we seek to ensure that our targets are met by sharing ideas and best practices in research, development, production, marketing and sales.

Lundbeck has a number of inlicensed products in its portfolio, including Ebixa® for the treatment of Alzheimer's disease, Azilect® for the treatment of Parkinson's disease, Xenazine® for the treatment of chorea associated with Huntington's disease and Saphris®/Sycrest® for the treatment of schizophrenia and manic episodes associated with bipolar disorder. Inlicensing of pharmaceuticals is characterised by sharp competition. This involves the risk that prices of attractive projects are pushed up to a level that would render them unprofitable, considering the risk involved.

Lundbeck is a knowledge based business, and that means that our success depends on consistently having the right employees with the right competencies. Consequently, we are taking great strides to secure our human capital. We spend substantial resources on developing the know-how and competencies of our employees. This is the key to our success, but also means that our employees are attractive to other businesses. Therefore, remuneration, employee benefits, recognition and development opportunities are key factors for us to retain our employees.

To a company such as Lundbeck, it is crucial that we can protect the knowledge that is the basis of our success. We have increased our focus on information security with the aim of protecting our intellectual property rights and, not least, avoiding the infringement of third party rights. We need to keep our knowledge secure but also need to share it between employees around the world.

## REPUTATION

New clinical trials, publications and letters to the editor may change the perception of different pharmaceuticals and their manufacturers. Lundbeck invests substantial resources in providing factual and scientific information to the benefit of health care professionals and patients. The intention is to create a foundation for confidence in our pharmaceuticals.

Corporate governance is the cornerstone of our way of running our business. We have the right systems for ensuring preventive and forward-looking risk management. Our organization delivers ongoing, value-creating, valid and fast reports on issues such as Lundbeck's reputation, risk profile on marketed products and operational, tactical and strategic financial planning.

In 2011, Lundbeck became the object of media and NGO attention because of the misuse by US prisons of Nembutal® (pentobarbital) in relation to capital punishment despite the indication of the pharmaceutical for the treatment of epileptic seizures. Lundbeck opposed strongly to this misuse, and after careful analysis, we established a new distribution system to restrict such misuse. In December 2011, we divested a portfolio of products in the US, including Nembutal®, as part of our long-term strategy.

> **OUR FOCUS ON REPORTING, CONTROLLING AND MITIGATING LUNDBECK'S RISK EXPOSURE IS ESSENTIAL IN ORDER TO MINIMISE RISKS.**
>
> *Anders Götzsche, Executive Vice President, CFO*

In 2011, we completed a substantial part of the implementation of our Code of Conduct, which is a set of guidelines describing our views on responsible business conduct and our relations with stakeholders such as health care professionals, patients, authorities and society in general. We are strongly committed to complying with the Code of Conduct both when it comes to our own employees and in our relationships with our collaboration partners.

## LEGAL RIGHTS

Lundbeck relies on its ability to protect its intellectual rights for new pharmaceuticals. Also, we must operate our business without infringing the rights of others. Patenting and the patent application process in pharmaceutical companies are legally and scientifically complicated processes and are thus subject to a degree of uncertainty. We are taking major steps to develop and retain competencies in this area.

We believe that our intellectual property rights are valid and enforceable, and we defend these rights wherever they may be violated. Lundbeck is involved in pending trials concerning intellectual property rights for escitalopram in Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, Lebanon, the Netherlands, Portugal, Saudi Arabia, Spain, Turkey and the UK.

## FINANCIAL MATTERS

Most of Lundbeck's commercial transactions are settled in foreign currencies. At the present time, the currency risk is primarily associated with movements in the US dollar (USD), but also a number of other currencies such as the Canadian dollar (CAD) and Turkish lira (TRY).

From the end of 2011, the Lundbeck treasury policy has been updated to allow the hedging of income in these currencies for up to 24 months. Accordingly, if the exchange rates change during 2012, this will only have a small impact on our financial results for 2012, but it may affect the financial performance from 2013 onwards.

Interest rate risks arise in connection with our bond portfolio, debt portfolio and cash holding. Interest rate risks are reduced by seeking short duration on both the asset and the liabilities side.

We reduce the credit risk that arises in connection with the sale of goods, our bond portfolio and cash holdings by avoiding credit risk concentration and by diversifying receivables on a large number of creditworthy trading partners. In addition, we exclusively deal with banks that have an "investment grade" credit rating. For more details on financial risks, see note 15 on p. 95, note 17 on p. 96 and note 25 on p. 107.

## DECISIONS IN KEY PATENT CASES IN 2011

### ESCITALOPRAM

**BELGIUM**

In October 2011, Lundbeck received an adverse decision in relation to the validity of our patent for escitalopram. We have appealed the decision.

**CANADA**

In August 2011, the Canadian Supreme Court refused to reconsider a decision delivered by the Canadian court of appeal in November 2010. The Appeal Court established that Lundbeck's patent for escitalopram is considered valid and would therefore be infringed by three generic manufacturers which had applied for marketing authorisation for generic escitalopram. The generic manufacturers have subsequently withdrawn their application for marketing approval.

**GERMANY**

In March 2011, Lundbeck won yet another case which confirms the validity of Lundbeck's escitalopram patent.

**SPAIN**

In September 2011, the Spanish Supreme Court issued a decision to reissue the Spanish escitalopram patent with product claims (the patent originally issued only included process claims). Further a number of infringement cases are pending in Spain in relation to the patent originally issued.

### CITALOPRAM

In a number of countries, Lundbeck has been named the defendant in cases concerning infringement of another companys patent concerning the production of citalopram. Lundbeck has contested the validity of the patents, and the respective courts have ruled in Lundbecks favour.

# CORPORATE GOVERNANCE

**Lundbeck complies with the central corporate governance recommendations. We regularly analyse our strategic challenges and maintain an open dialogue on the topic.**

Corporate governance at Lundbeck includes the way in which the company is managed and controlled, the guidelines that regulate the interaction between our Executive Management, Board of Directors and stakeholders as well as the internal controls in our business.

Lundbeck's Board of Directors and Executive Management constantly work to ensure corporate governance through active ownership by Lundbeck's shareholders, who are encouraged to contribute items to be considered at the Annual General Meeting. We work to ensure an open dialogue and transparency in shareholder communications and recognise Lundbeck's stakeholders and their importance to the company.

We retained our strong focus on corporate governance in 2011. The Board of Directors and Executive Management have addressed the recommendations of the NASDAQ OMX Copenhagen stock exchange and have updated Lundbeck's guidelines for the area accordingly[34]. The Board of Directors and Executive Management believe that Lundbeck meets all of these corporate governance recommendations, with the exception of three items:

We do not comply with the recommendation to establish a nomination committee, which considers the qualifications and composition of the Board of Directors and Executive Management. The reason is that our chairman and deputy chairman handle this task.

We also deviate from the recommendation about publishing the extent of the remuneration paid to individual members of Executive Management. We do not believe that this provides added value to our stakeholders. We still only intend to disclose the individual remuneration paid to our President and CEO and the total remuneration paid to Executive Management.

The third area in which we deviate from the recommendations concerns diversity of the Board of Directors and Executive Management. We fully subscribe to the principle that women and men should be given equal opportunities, but at the same time we wish to follow our guidelines on recruiting people based on qualifications.

## BOARD RESPONSIBILITIES

The Board of Directors is responsible for defining our general strategy, setting goals for Executive Management and ensuring that members of Executive Management and other managers have the right qualifications. The Board also evaluates management and management remuneration. Furthermore, the Board of Directors has the overall responsibility for ensuring that adequate internal controls are in place and for identifying and addressing any risks. This responsibility is defined in the Danish Companies Act and stipulated in the rules of procedures for the Board of Directors.

> **WE MANAGE AND CONTROL OUR BUSINESS BASED ON THE CORPORATE GOVERNANCE PRINCIPLES. WE HAVE GUIDELINES THAT SUPPORT INTERNAL CONTROLS AND ENHANCE THE INTERACTION BETWEEN EXECUTIVE MANAGEMENT, THE BOARD OF DIRECTORS AND OUR STAKEHOLDERS.**
>
> *Mats Pettersson, Chairman of the Board of Directors*

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

Pursuant to the rules and procedures for the Board of Directors, the chairman and deputy chairman have duties aimed at ensuring that the Board functions satisfactorily and that the Board's duties are handled in the best possible manner. This involves duties such as the recruitment of new board members, coordinating the work of the Board, coordination relative to Executive Management and Lundbeck's independent auditors, defining goals and policies and following up thereon, risk and financial management.

**Executive Management reports to the Board of Directors on an ongoing basis in respect of:**

- Follow-up on approved strategic activities
- Principal risks, including risks associated with patenting, the research and development portfolio, regulatory, commercial and financial issues
- Recommendation for approval of large-scale investments and transactions which for Lundbeck are of an unusual nature or size
- Financial reporting, including follow-up on budgets, estimates, interim financial statements and annual reports
- Matters such as internal controls in the financial reporting procedures, special financial and accounting issues, evaluation of financial reporting and other financial information
- Processing of final Auditbook from the independent auditors.

In 2011, the Board of Directors concentrated its efforts on Lundbeck's strategic challenges, including defining the long-term strategic approach. The Board of Directors approved a number of large collaboration agreements, including with US-based Cephalon, Inc. (now Teva Pharmaceutical Industries Ltd.) and Japanese Otsuka Pharmaceutical Co., Ltd. In addition, the Board of Directors evaluated and approved strategies for late-stage projects and new marketed products.

The Board of Directors held nine ordinary meetings and two extraordinary meetings in 2011, plus a two-day strategy seminar together with Executive Management.

## BOARD COMPOSITION AND INDEPENDENCE

Lundbeck's Board of Directors consists of six external directors elected by the shareholders at the Annual General Meeting and three members elected by Lundbeck's Danish employees. Members elected at the Annual General Meeting are up for re-election every year, whilst the members elected by the employees are up for re-election every four years. Board members may retain their seat on Lundbeck's Board of Directors until the Annual General Meeting held in the calendar year in which they attain the age of 70. For more information about rules and principles for election of board members, see our website[35]. In 2011, a new chairman and two new members were elected to the Board of Directors, as described in Management's review, p. 6.

NASDAQ OMX Copenhagen recommends that at least half of a company's board members should be independent. The issue of board member independence is particularly relevant for Lundbeck, which has a single principal shareholder, the Lundbeck Foundation, holding 70% of the shares.

## BOARD INFORMATION

| Board members elected at the Annual General Meeting | Special competencies | Independent member | Audit Committee | Remuneration Committee | Scientific Committee |
|---|---|---|---|---|---|
| Mats Pettersson (chairman) | • Management in international enterprises<br>• Pharmaceutical research and development<br>• Business development | ● | ● | Chairman | |
| Thorleif Krarup (deputy chairman) | • Management in international enterprises<br>• The Lundbeck Group's business and practices<br>• Global financial management | Recommended by The Lundbeck Foundation | ● | | |
| Håkan Björklund | • Management in international enterprises<br>• R&D and commercial experience from the pharmaceutical industry<br>• Business development | ● | | ● | ● |
| Christian Dyvig | • Management in international enterprises<br>• Global financial management and investment expertise<br>• Business development | Recommended by The Lundbeck Foundation | | | ● |
| Peter Kürstein | • Management and risk management in international enterprises<br>• Development and implementation of strategies<br>• Business development and HR | ● | Chairman | | |
| Jes Østergaard | • Management in international research enterprises<br>• The Lundbeck Group's business and practices<br>• Business development and HR | Recommended by The Lundbeck Foundation | | ● | Chairman |

## BOARD MEMBERS ELECTED BY THE EMPLOYEES

| |
|---|
| Kim Rosenville Christensen |
| Mona Elisabeth Elster |
| Jørn Mayntzhusen |

Based on the definition from NASDAQ OMX Copenhagen, three of the six board members elected at the Annual General Meeting are considered independent, whilst three members, due to their close affiliation with the Foundation, are not considered independent. The Foundation does not nominate the chairman of Lundbeck's Board of Directors but only recommends members for the position as deputy chairman and two ordinary board members.

More than half the members of the Audit Committee and the Remuneration Committee are independent, corresponding to two members of each committee. In the Scientific Committee, one of three members are independent. The chairman of the Board does not act as chairman of the Audit Committee, and no board member is a member of Lundbeck's Executive Management.

## BOARD COMPETENCIES AND REMUNERATION

It is paramount that our Board of Directors possesses the right and the required competencies. Every year, Lundbeck's Board of Directors conducts a self-evaluation facilitated by an external party. The evaluation includes a review of the strengths and weaknesses of the work performed by the Board as well as by the committees. The evaluation also ensures that the Board retains the necessary competencies. The Board of Directors believe that the current Board members possess the financial, strategic and business competencies required to serve on the board of an international pharmaceutical company.

Members of Lundbeck's Board of Directors receive a fixed remuneration and are not included in the company's bonus and incentive programmes, neither in the form of cash bonus, options or shares. In addition, the members of the Audit, Remuneration and Scientific Committees receive a separate fee.

We recommend to the shareholders at the Annual General Meeting that the basic fees to the Board of Directors remain unchanged in 2012. An ordinary member of the Board receives DKK 300,000, while the chairman and deputy chairman each receive triple and double the basic fee, respectively. We also recommend that the members of the Audit, Remuneration and Scientific Committees receive DKK 200,000 in 2012. The chairmen of the committees will receive 1.5 times the basic fee.

## EXECUTIVE MANAGEMENT

Lundbeck's Executive Management is responsible for the company's day-to-day management. This responsibility comprises the Lundbeck organization, allocation of resources, defining and implementing strategies and policies, achieving goals and reporting information to the Board of Directors.

**The responsibilities of Executive Management include:**

- Following up and regularly reporting on status for targets and results achieved relative to approved budgets
- Arranging regular meetings at which the Corporate Management Group reviews and evaluates progress and risks in the research and development portfolio
- Providing reports on cash and financial positions
- Issuing a statement about whether the company's policies have been implemented and complied with, signed by the management in the reporting entities in connection with financial reporting
- Segregating functions and defining limits on powers to sign for the company and approving authorisations to prevent fraud and financial losses
- Establishing policies in areas such as IT security, insurance, investment, procurement, cash management and financial reporting.

Lundbeck's Executive Management consists of four members who represent different areas of the pharmaceutical value chain: research and development, marketing and sales, and administrative functions. The Corporate Management Group also includes the functional areas External Scientific Relations, Business Development, Supply, Operations & Engineering, HR and Legal.

## EXECUTIVE MANAGEMENT REMUNERATION

The remuneration of Executive Management reflects Lundbeck's ambition to be a research-based company dedicated to brain disorders and aiming for long-term financial growth.

It is important to Lundbeck that the overall remuneration package for the members of Executive Management is composed so that it rewards the achievement of ambitious short-term goals and clearly provides an incentive to focus on long-term goals as well. Lundbeck compares its remuneration framework with companies in Scandinavia and in the European pharmaceutical industry.

The overall remuneration package for the members of Executive Management consists of a base salary, short-term and long-term incentive programmes and pension. The base salary is on level with the average of the group of peer companies. The short-term incentive programme for the members of Executive Management is an annual bonus awarded for the achievement of pre-determined targets for 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. The bonus scheme is based on group targets and individual targets.

In addition, members of Executive Management participate in a three-year revolving long-term incentive programme that includes shares and share-based instruments such as warrants and share options. The programme is based on value generation to shareholders. Executive Management can access these shares and share-based instruments after a three-year period, depending on results achieved in respect of overall shareholder return relative to a defined peer group.

The pension scheme for Executive Management is a defined contribution scheme which corresponds to the market level. The scheme includes both a savings part and the insurance coverage associated with general practice for pension schemes.

On termination of employment, members of Executive Management will receive no more than two years' salary.

Executive Management's remuneration is based on guidelines submitted for adoption at the Annual General Meeting in 2012. The latest approved guidelines, which specify the components of the remuneration package for Executive Management members, are available on our website[36].

## REMUNERATION

| BOARD OF DIRECTORS | |
|---|---|
| Member of the board | DKK 300,000 |
| Chairman | DKK 900,000 |
| Deputy chairman | DKK 600,000 |

| COMMITEES | |
|---|---|
| Member of a commitee | DKK 200,000 |
| Chairman of a commitee | DKK 300,000 |

## CONTROL AND RISK MANAGEMENT IN THE FINANCIAL REPORTING PROCESS

Lundbeck uses an internal control and risk management system in its financial reporting process in order to mitigate the risk of material errors and omissions in the financial reporting. The system consists of five areas:

### CONTROL ENVIRONMENT

The Board of Directors and Executive Management are responsible for establishing and approving general policies, procedures and controls in relation to financial reporting. At the same time, they regularly assess the company's organizational structure and staffing in key areas.

### RISK ASSESSMENT

The Board of Directors and Executive Management regularly assess the company's risk exposure, including risks relating to financial reporting.

### CONTROL ACTIVITIES

Our control activities are based on risk assessment. The objective is to ensure compliance with policies, manuals and procedures laid down by management and timely identification of errors and omissions.

### INFORMATION AND COMMUNICATION

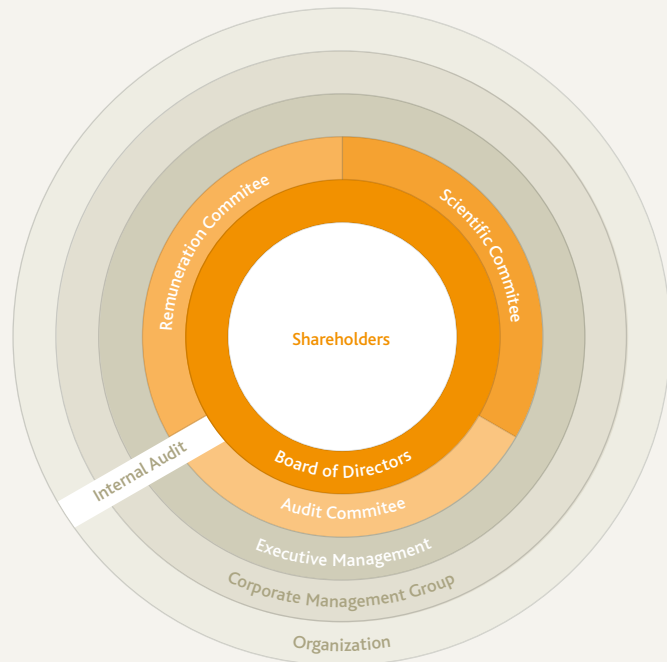
We have established information and communication systems which set out the requirements for internal and external financial reporting in accordance with current legislation.

### MONITORING

We monitor risk assessment and control activities in an ongoing process. The monitoring comprises formal and informal procedures, including a review of results, budgets and estimates. In addition, we assess key financial highlights and ratios.

For more information, see http://www.lundbeck.com/global/about-us/corporate-governance/internal-control

## LUNDBECK'S CORPORATE GOVERNANCE MODEL



# BOARD COMMITTEES

The Board of Directors has set up three committees: the Audit Committee, the Remuneration Committee and the Scientific Committee. The three committees advise the Board in connection with financial information and reporting, remuneration of Executive Management and the company's compensation strategy, and research and development, respectively.

## AUDIT COMMITTEE – FINANCIAL ADVICE

The Audit Committee provides advice to the Board of Directors on internal controls in the financial reporting procedures, special financial and accounting issues, evaluation of financial reporting and other financial information and risk management.

**The Audit Committee works and provides advice on the basis of:**

- Meetings with the Corporate Management Group and internal and independent auditors
- Management's recommendation concerning accounting policies, accounting estimates with significant impact on the financial reporting process, new accounting standards and significant single transactions
- Critical guidelines and policies for internal controls and financial reporting procedures
- Annual strategy, audit plans and review of status on audit procedures performed by Internal Audit
- Communication from independent auditors to the Board of Directors, including monitoring and control of independent auditors' independence, review of audit planning and drafting long-form audit reports
- Systematic review of the company's risk exposure
- Cases received through the whistleblower system.

In 2011, the committee continued the practice from the previous year, focusing especially on the implementation of Lundbeck's Code of Conduct, the whistleblower system and risk management in the company. The Audit Committee held three meetings in 2011.

**Internal Audit and whistleblower system**

Lundbeck has set up an Internal Audit function which reports directly to the Audit Committee and which is thus independent of the Corporate Management Group. Based on the audit plan approved by the Audit Committee, Internal Audit performs audit assignments in all business entities after a plan of rotation to ensure compliance with our policies and procedures. The auditors assist management by recommending ongoing improvements to existing internal controls.

Furthermore, we have established a whistleblower system that all employees can use anonymously to contact Internal Audit if they experience non-compliance with Lundbeck's policies.

## REMUNERATION COMMITTEE – ADVICE ON REMUNERATION

The purpose of the Remuneration Committee is to provide the Board of Directors with the best possible basis for making decisions on the remuneration provided to the members of the Executive Management and on the company's overall remuneration policy. The Committee also handles assignments related to recruitment and appointments to Lundbeck's senior management.

In 2011, the committee focused on following up on Executive Management's targets for 2010 and defining targets for 2012. The committee also adjusted the long-term incentive and remuneration programmes to ensure that Lundbeck remains an attractive workplace for talented and key employees. In 2011, the Remuneration Committee held five meetings.

## SCIENTIFIC COMMITTEE – ADVICE ON RESEARCH AND DEVELOPMENT

Lundbeck's Board of Directors has a Scientific Committee, the purpose of which is to provide the Board of Directors with the best possible basis for supporting strategic research and development decisions.

The principal activities of the Scientific Committee in 2011 were our revised research and development strategy and recommendations concerning our late-stage projects and business development projects. The Scientific Committee held two two-day meetings in 2011 attended by external experts and two meetings attended by members of the Board of Directors and Lundbeck's Corporate Management Group.

# THE LUNDBECK SHARE

**The Lundbeck share closed 2011 at DKK 108.00 and has re-joined the OMXC20 share index. The approval of Onfi™, the strategic partnership with Otsuka and strong clinical results for Selincro™ had a favourable impact on the share price.**

In 2011, the Lundbeck share increased 2% despite the difficult economic climate. In comparison, the Danish benchmark share index, OMXC20, lost 14.8% in 2011. The MSCI European Pharmaceutical Index increased by 8.7%.

The price of the Lundbeck share was favourably impacted by positive news in 2011, including the approval of Onfi™ (clobazam) for the treatment of Lennox-Gastaut syndrome (epilepsy) in the US, our strategic partnership with Otsuka Pharmaceutical Co., Ltd. regarding aripiprazole depot and OPC-34712 for the treatment of psychiatric disorders and our positive clinical phase III results for Selincro™ (nalmefene) for the treatment of alcohol dependence in Europe. Our interim reports were generally well received by the equity market. However, in line with the rest of the equity market, our share price was adversely impacted by the challenging economic climate in 2011.

The Lundbeck share closed the year at DKK 108.00 and peaked at a year-high closing price of DKK 139.70 on 7 July 2011. The lowest closing price of the year was DKK 99.75 on 22 September 2011.

## TURNOVER

Total trading in Lundbeck shares amounted to DKK 7.4 billion in 2011, whilst the average daily turnover was DKK 28.9 million. A total of 62 million shares were traded in 2011.

Trading in the Lundbeck share in the first half of 2011 was sufficient for the share to be re-admitted to the OMXC20 share index in June after having exited the index in December 2010.

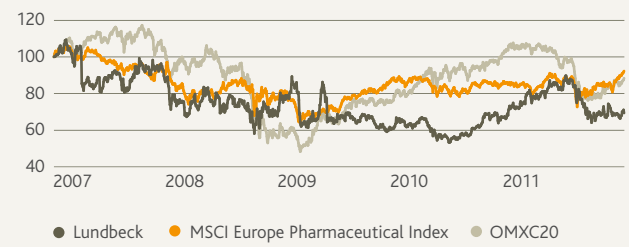
## DIVIDEND

Lundbeck's policy is to have a dividend payout ratio of 25–35% of the profit for the year after tax, with due consideration to Lundbeck's growth plans, possible acquisitions and liquidity requirements in general. For the financial year 2011, the Board of Directors proposes a dividend payout ratio of 30% of the profit for the year after tax, corresponding to DKK 3.49 per share. The dividend yield amounted to 3.2% in 2011.

Lundbeck shares are traded ex-dividend the day after the Annual General Meeting, which will be held on 29 March 2012. The dividend will be paid automatically via VP Securities on 4 April 2012.

**Stock performance 2011**


**Stock performance 2007-2011** (Index 30 December 2006=100)



## SHARE CAPITAL

The Lundbeck share is listed on the stock exchange in Copenhagen, NASDAQ OMX Copenhagen. All shares belong to the same share class, and all shares rank equally. The shares are negotiable instruments with no restrictions on their transferability. Each share has a nominal value of DKK 5 and carries one vote.

At the end of 2011, the total share capital amounted to DKK 980,679,590, which corresponds to 196,135,918 shares. On 16 May 2011, the share capital was increased by DKK 96,420 following the exercise of warrants issued as part of Lundbeck's long-term incentive programmes for Executive Management and key employees. The increase corresponded to 19,284 shares.

## COMPOSITION OF SHAREHOLDERS

Lundbeckfond Invest A/S is the company's largest shareholder and held 137,351,918 shares at the end of 2011. This corresponded to approximately 70% of the share capital and voting rights of H. Lundbeck A/S. Lundbeckfond Invest A/S is the only shareholder who has reported a shareholding exceeding 5% of the share capital.

Institutional investors in North America held 34% of the free float at the end of 2011, decreasing from 38% in 2010. The share of European institutional investors (excluding Danish institutional investors) was unchanged relative to 2010, and at the end of 2011 held 24% of the total share capital. At the end of 2011, Danish institutional investors held 14% of the total share capital, against 16% at the end of 2010.

The share of the free float held by private, Danish investors decreased to 15% at the end of 2011 from 16% on 31 December 2010.

At the end of 2011, H. Lundbeck A/S held 1,520 of the shares. This amounts to 0.001% of the total share capital. The shares were acquired fully in accordance with the in-house rules and the rules on trading in treasury shares issued by NASDAQ OMX Copenhagen.

At the end of 2011, Lundbeck's Board of Directors and Executive Management held, directly and indirectly, a total of Lundbeck shares of 9,734 and 50,477 respectively.

The company's shares are registered by name and are entered in the register of shareholders. At the end of 2011, 28,716 registered shareholders held 98% of the share capital.

**Composition of free float ownership, 2007-2011**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Institutional, Denmark | 14% | 16% | 20% | 22% | 24% |
| Institutional, rest of Europe | 24% | 24% | 17% | 18% | 20% |
| Institutional, North America | 34% | 38% | 28% | 32% | 28% |
| Private, Denmark | 15% | 16% | 17% | 14% | 15% |
| Others, incl. non-identified | 13% | 6% | 18% | 14% | 13% |

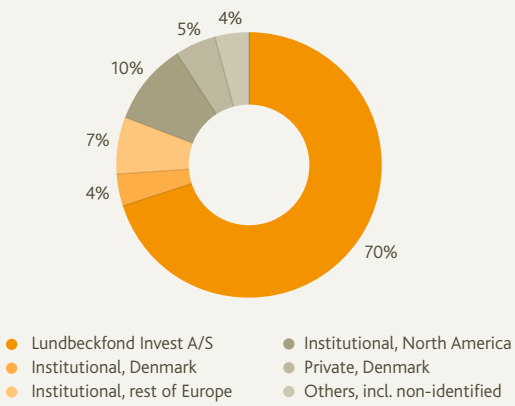
## LUNDBECK AND THE EQUITY MARKET

Lundbeck aims to give a true and fair view of its activities by providing ongoing communications with prospective and existing shareholders and equity analysts. We seek to provide the optimum insight to the equity market by conveying relevant and consistent information about our visions and goals, business areas and financial developments.

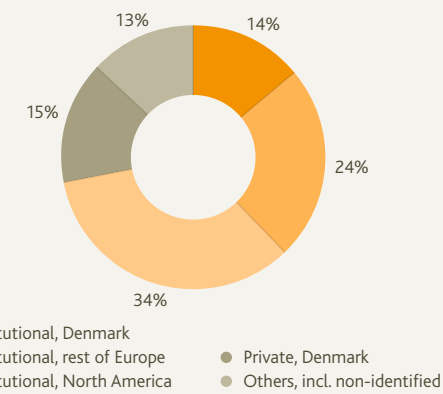
We do this through ongoing dialogue with equity market stakeholders, including frequent meetings with investors and analysts. In 2011, Investor Relations held about 250 investor meetings, primarily in Europe and the US and participated in more than 10 investor conferences.

At the presentation of Lundbeck's interim reports, we conduct roadshows at which our Investor Relations department and Corporate Management Group inform investors and analysts about the latest developments. The investor presentations are available on investor.lundbeck.com/downloads.cfm.

**Composition of share capital, end 2011**




**Composition of free float ownership, end 2011**



## Share ratios

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Earnings per share (EPS) (DKK) | 11.63 | 12.57 | 10.24 |
| Diluted earnings per share (DEPS) (DKK) | 11.63 | 12.57 | 10.24 |
| Cash flow per share (DKK) | 18.48 | 16.65 | 15.47 |
| Net asset value per share (DKK) | 65.14 | 56.71 | 44.89 |
| Dividend (DKK) | 3.49 | 3.77 | 3.07 |
| Dividend pay-out ratio (%) | 30 | 30 | 30 |
| Dividend yield (%) | 3.20 | 3.60 | 3.20 |
| Market price, end 2011 | 108.00 | 106.00 | 94.75 |
| High market price | 139.70 | 108.50 | 141.50 |
| Low market price | 99.75 | 82.80 | 90.75 |
| Price/Earnings | 9.28 | 8.43 | 9.26 |
| Price/Cash flow | 5.84 | 6.37 | 6.12 |
| Price/Net asset value | 1.66 | 1.87 | 2.11 |
| Market capitalization, end 2011 (DKKbn) | 21.2 | 20.8 | 18.6 |
| Annual trading, million shares | 62.1 | 122.4 | 102.8 |
| Average trading per trading day, thousands of shares | 243.4 | 487.8 | 412.7 |

## Share facts

| | |
|---|---|
| Number of shares, end 2011 | 196,135,918 |
| Share capital, end 2011 (DKK) | 980,679,590 |
| Nominal value (DKK) | 5 |
| Holding of treasury shares | 1,520 |
| Free float (%) | 30 |
| IPO | 18 June 1999 |
| Stock exchange | NASDAQ OMX Copenhagen |
| ISIN code | DK0010287234 |
| Ticker | LUN.CO (Reuters) |
| | LUN DC (Bloomberg) |
| ADR programme | Unsponsored |
| ADR trading code | HLUKY |
| CUSIP number | 40422M107 |
| Sector (ICB) | Pharmaceuticals & Biotechnology |
| SIC code | 2833 |
| SEDOL | 7085259 |
| Large indices | OMXC20 |
| | Dow Jones STOXX 600 |
| | FTSE4Good Europe |

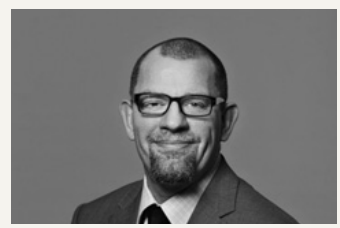
## Analyst coverage

| Company | Name | Website |
|---|---|---|
| ABG Sundal Collier | Peter Hugreffe Ankersen | www.abgsc.com |
| Alm. Brand Markets | Michael Friis Jørgensen | www.markets.almbrand.dk |
| Bank of America – Merrill Lynch | Brigitte de Lima | www.ml.com |
| Carnegie Bank | Carsten Lønborg Madsen | www.carnegie.dk |
| Danske Equities | Martin Parkhøi | www.danskeequities.com |
| Deutsche Bank | Tim Race<br>Richard Parkes | www.gm.db.com |
| Exane BNP Paribas | Florent Cespedes | www.exane.com |
| Goldman Sachs | Eleanor Fung | www.gs.com |
| Handelsbanken | Peter Sehested | www.handelsbanken.com |
| Jeffries International Ltd. | Peter Welford<br>Philippa Gardner | www.jeffries.com |
| Jyske Bank | Frank H. Andersen | www.jyskemarkets.com |
| Nordea | Michael Novod | www.nordea.com |
| Nykredit | Michael Drøscher Jørgensen | www.nykredit.dk |
| Redburn Partners | Paul Major<br>Anita Vasu | www.redburn.com |
| SEB Enskilda | Lars Hevreng | www.enskilda.com |
| Société Générale | Caroline Valldecabres | www.sgresearch.com |
| Sydbank | Søren Løntoft Hansen | www.sydbank.dk |
| UBS | Amalan Selvarajah<br>Gbola Amusa | www.ubs.com |

## Financial calendar

| | |
|---|---|
| 15 February 2012 | Deadline for Lundbeck's receipt of shareholder proposals for the Annual General Meeting |
| 29 March 2012 | Annual General Meeting |
| 04 April 2012 | Distribution of annual dividend |
| 02 May 2012 | First quarter report 2012 |
| 08 August 2012 | Second quarter report 2012 |
| 07 November 2012 | Third quarter report 2012 |

## Contact Investor Relations



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palo@lundbeck.com

**Magnus Thorstholm Jensen**
Investor Relations Officer
Tlf. +45 36 43 38 16
matj@lundbeck.com

# REFERENCES AND NOTES

## GROWING BURDEN OF DISEASE


1) WHO – The Global Burden of Disease: 2004 update, 2004
2) Wittchen et al. – The size and burden of mental disorders and other disorders of the brain in Europe 2010, European Neuropsychopharmacology, 2011. Lundbeck has given an unrestricted grant to the preparation of the report, but has had no further role in the study design, collection of data, analysis, interpretation or the preparation of the manuscript
3) WHO – Mental Health Atlas, 2011
4) Gustavsson et al. – Cost of disorders of the brain in Europe 2010, European Neuropsychopharmacology, 2011
5) WHO – European Status Report on Alcohol and Health 2010, 2010
6) Mohapatra et al. – Social cost of heavy drinking and alcohol dependence in high-income countries, International Journal of Public Health, 2010
7) Glauser – Lennox-Gastaut Syndrome, Medscape, 2011
8) Borggraefe et al. – Pharmacotherapy of Seizures Associated with Lennox-Gastaut Syndrome, Clinical Medicine Insights: Therapeutics, 2010
9) Crumrine – Management of Seizures in Lennox-Gastaut Syndrome, Pediatric Drugs, April 2011
10) Ferrie et al. – Treatment of Lennox-Gastaut Syndrome (LGS), European Journal of Paediatric Neurology, February 2009
11) Ng et al. on behalf of the OV-1012 Study Investigators – Randomized, phase III study results of clobazam in Lennox-Gastaut syndrome. Neurology, April 2011
12) Rehm et al. – Alcohol use disorders in EU countries and Norway: an overview of the epidemiology, European Neuropsychopharmacology, 2005
13) WHO – European Status Report on Alcohol and Health 2010, 2010
14) Mohapatra et al. – Social cost of heavy drinking and alcohol dependence in high-income countries, International Journal of Public Health, 2010
15) Miller et al. – How effective is alcoholism treatment in the United States?, Journal of studies on alcohol, 2001
16) COGNOS Study – Major depressive disorder, August 2010
17) Rush et al. – Acute and Longer-Term Outcomes in Depressed Outpatients Requiring One or Several Treatment Steps: A STAR*D Report, American Journal of Psychiatry, 2006
18) Karp et al. – Relationship of Variability in Residual Symptoms With Recurrence of Major Depressive Disorder During Maintenance Treatment, American Journal of Psychiatry, 2004
19) Judd et al. – Major depressive disorder: A prospective study of residual subthreshold depressive symptoms as predictor of rapid relapse, Journal of Affective Disorders, September 1998
20) Alvarez et al – A double-blind, randomized, placebo-controlled, active reference study of Lu AA21004 in patients with major depressive disorder, The International Journal of Neuropsychopharmacology, 2011


## MARKETS AND PRODUCTS


21) IMS 2010
22) In Germany, treatment in the public market is covered via public funding/reimbursement, whilst the private market is funded privately or through insurance
23) New England Journal of Medicine, September 2009
24) International Journal of Neuroscience, June 2010
25) IMS 2010
26) IMS 2010
27) IMS 2010
28) COGNOS study – Alzheimer's disease, June 2011
29) The 'Western world' refers to the five largest countries in Europe and the US and Japan
30) COGNOS study – Major Depressive Disorder, August 2010
31) COGNOS study – Parkinson's Disease, June 2011
32) IMS 2009


## CORPORATE RESPONSIBILITY


33) Protect: It is the responsibility of the states to protect against human rights abuses by third parties, including companies; Respect: It is the responsibility of companies to respect human rights; Remedy: States and companies must ensure effective mediation and grievance mechanisms and access to redress should abuse occur (Professor John Ruggie, Harvard University)


## CORPORATE GOVERNANCE


34) http://www.lundbeck.com/upload/global/files/pdf/Corporate%20governance/Corporate_Governance_overview.pdf
35) http://www.lundbeck.com/upload/global/files/pdf/articles_en.pdf
36) http://www.lundbeck.com/global/about-us/corporate-governance/remuneration

# EXECUTIVE MANAGEMENT•

## ULF WIINBERG
**PRESIDENT AND CEO**

• Born on 29 November 1958

**Directorships**
- EFPIA (the European Federation of Pharmaceutical Industries and Associations)
- PhRMA (the Pharmaceutical Research and Manufacturers of America)
- Industrial Policy Committee, Confederation of Danish Industry

## ANDERS GÖTZSCHE
**EXECUTIVE VICE PRESIDENT, CFO**

• Born on 31 December 1967

**Directorships**
- Veloxis Pharmaceutical A/S

## ANDERS GERSEL PEDERSEN
**EXECUTIVE VICE PRESIDENT, RESEARCH & DEVELOPMENT**

• Born on 12 September 1951

**Directorships**
- ALK-Abelló A/S
- Bavarian Nordic A/S
- Genmab A/S (deputy chairman)

## MARIE-LAURE POCHON
**EXECUTIVE VICE PRESIDENT, COMMERCIAL OPERATIONS**

• Born on 31 January 1959

**Directorships**
- LEEM (French association of drug makers)

• Information per 31 December 2011

# BOARD OF DIRECTORS

## MATS PETTERSSON
**CHAIRMAN**

- Chairman Remuneration Committee and member Audit Committee
- Elected at the 2003 Annual General Meeting
- Born on 7 November 1945

**Directorships**
- Ablynx NV
- Aquapharm Biodiscovery Ltd.
- Moberg Derma AB (chairman)
- NsGene AS (chairman)
- Photocure AS
- to-BBB Holding B.V.

**Holding of shares**
- 2,000

## THORLEIF KRARUP
**DEPUTY CHAIRMAN**

- Member Audit Committee
- Elected at the 2004 Annual General Meeting
- Born on 28 August 1952

**Directorships**
- ALK-Abelló A/S (chairman)
- Exiqon A/S (chairman)
- Falck A/S (deputy chairman)
- Lundbeckfond Invest A/S (deputy chairman)
- Lundbeck Foundation
- Sport One Danmark A/S (chairman)

**Holding of shares**
- 673

## HÅKAN BJÖRKLUND

- Member Remuneration Committee and Scientific Committee
- Elected at the 2011 Annual General Meeting
- Born on 14 April 1956
- Health Care Operating Executive, Avista Capital Partners

**Directorships**
- Atos Medical AB
- Coloplast A/S

**Holding of shares**
- 1,662

## KIM ROSENVILLE CHRISTENSEN

- Elected by employees in 2006
- Born on 17 April 1959
- Synthesis Operator

**Holding of shares**
- 1,502

## MONA ELISABETH ELSTER

- Elected by employees in 2010
- Born on 28 June 1962
- Senior Laboratory Technician

**Holding of shares**
- 0

## PETER KÜRSTEIN

- Chairman Audit Committee
- Elected at the 2001 Annual General Meeting
- Born on 28 January 1956
- President and CEO, Radiometer Medical A/S

**Directorships**
- Foss A/S (deputy chairman)

**Holding of shares**
- 1,075

## JØRN MAYNTZHUSEN

- Elected by employees in 2008
- Born on 4 April 1966
- Senior Manager Supply Optimisation and Launches

**Holding of shares**
- 822

## CHRISTIAN DYVIG

- Member Scientific Committee
- Elected at the 2011 Annual General Meeting
- Born 11 October 1964
- CEO, Lundbeck Foundation

**Directorships**
- FIH Erhvervsbank A/S

**Holding of shares**
- 0

## JES ØSTERGAARD

- Member Remuneration Committee and chairman Scientific Committee
- Elected at the 2003 Annual General Meeting
- Born on 5 March 1948

**Directorships**
- ALK-Abelló A/S
- Lundbeckfond Invest A/S
- Lundbeck Foundation
- Scion-DTU a/s
- HEED Diagnostics

**Holding of shares**
- 2,000

- Information per 31 December 2011

# FINANCIAL STATEMENTS 2011

**REVENUE**

16,007
DKK million

**PROFIT FROM OPERATIONS**

3,393
DKK million

**PROFIT FOR THE YEAR**

2,282
DKK million


FINANCIALS
LUNDBECK

# CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

# SUMMARY FOR THE GROUP 2007-2011

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Income statement, DKKm** | | | | | |
| Revenue | 16,007 | 14,765 | 13,747 | 11,572 | 11,171 |
| Research and development costs | 3,320 | 3,045 | 3,196 | 2,990 | 2,193 |
| Operating profit before depreciation and amortisation (EBITDA) | 4,628 | 4,393 | 3,728 | 3,418 | 3,611 |
| Profit from operations (EBIT) | 3,393 | 3,357 | 2,858 | 2,354 | 2,689 |
| Net financials | (96) | (68) | (192) | (28) | 65 |
| Profit before tax | 3,297 | 3,289 | 2,666 | 2,283 | 2,670 |
| Profit for the year | 2,282 | 2,466 | 2,007 | 1,663 | 1,881 |
| | | | | | |
| **Assets, DKKm** | | | | | |
| Non-current assets | 11,731 | 11,249 | 10,972 | 5,386 | 5,631 |
| Inventories | 1,634 | 1,491 | 1,481 | 837 | 924 |
| Receivables | 3,226 | 2,917 | 2,655 | 2,222 | 2,367 |
| Cash and securities | 3,943 | 2,348 | 2,019 | 3,876 | 3,308 |
| Assets held for sale | - | - | - | 205 | - |
| **Total assets** | **20,534** | **18,005** | **17,127** | **12,526** | **12,230** |
| | | | | | |
| **Equity and liabilities, DKKm** | | | | | |
| Equity | 12,776 | 11,122 | 8,803 | 7,511 | 7,089 |
| Non-current liabilities | 3,062 | 2,836 | 3,772 | 2,577 | 2,487 |
| Current liabilities | 4,696 | 4,047 | 4,552 | 2,438 | 2,654 |
| **Total equity and liabilities** | **20,534** | **18,005** | **17,127** | **12,526** | **12,230** |
| | | | | | |
| **Cash flow statement, DKKm** | | | | | |
| Cash flows from operating activities | 3,624 | 3,265 | 3,034 | 2,780 | 2,705 |
| Cash flows from investing activities | (2,695) | (803) | (5,074) | (587) | (1,095) |
| Cash flows from operating and investing activities | 929 | 2,462 | (2,040) | 2,193 | 1,610 |
| Cash flows from financing activities | (746) | (2,162) | 1,065 | (1,016) | (1,013) |
| Interest-bearing net cash at year-end | 2,023 | 430 | (1,456) | 1,949 | 1,405 |
| | | | | | |
| **Key figures** | | | | | |
| EBITDA margin (%) | 28.9 | 29.8 | 27.1 | 29.5 | 32.3 |
| EBIT margin (%) | 21.2 | 22.7 | 20.8 | 20.3 | 24.1 |
| Return on capital employed (%) | 25.3 | 27.6 | 28.0 | 30.0 | 34.6 |
| Return on equity (%) | 19.1 | 24.8 | 24.6 | 22.8 | 27.3 |
| Research and development ratio (%) | 20.7 | 20.6 | 23.2 | 25.8 | 19.6 |
| Solvency ratio (%) | 62.2 | 61.8 | 51.4 | 60.0 | 58.0 |
| Capital employed (DKKm) | 14,696 | 13,040 | 12,278 | 9,438 | 8,992 |
| Capital turnover (%) | 78.0 | 82.0 | 80.3 | 92.4 | 91.3 |
| Effective tax rate (%) | 30.8 | 25.0 | 24.7 | 27.1 | 29.6 |
| Investments in intangible assets, gross (DKKm) | 1,193 | 444 | 980 | 817 | 274 |
| Investments in property, plant and equipment, gross (DKKm) | 419 | 383 | 258 | 229 | 474 |
| Investments in financial assets, gross (DKKm) | 2,400 | 8 | 11 | 1,033 | 844 |
| Average number of employees | 5,690 | 5,689 | 5,526 | 5,208 | 5,134 |

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Share data** | | | | | |
| Average number of shares, excl. treasury shares (millions)[1] | 196.1 | 196.1 | 196.1 | 196.8 | 205.0 |
| Earnings per share (EPS) (DKK)[1] | 11.63 | 12.57 | 10.24 | 8.45 | 9.18 |
| Diluted earnings per share (DEPS) (DKK)[1] | 11.63 | 12.57 | 10.24 | 8.45 | 9.17 |
| Proposed dividend per share (DKK)[1] | 3.49 | 3.77 | 3.07 | 2.30 | 2.56 |
| Cash flow per share (DKK)[1] | 18.48 | 16.65 | 15.47 | 14.12 | 13.18 |
| Net asset value per share (DKK)[1] | 65.14 | 56.71 | 44.89 | 38.30 | 35.33 |
| Market capitalisation (DKKm) | 21,183 | 20,788 | 18,582 | 21,657 | 28,605 |
| Price/Earnings (DKK) | 9.28 | 8.43 | 9.26 | 13.02 | 15.05 |
| Price/Cash flow (DKK) | 5.84 | 6.37 | 6.12 | 7.79 | 10.47 |
| Price/Net asset value (DKK) | 1.66 | 1.87 | 2.11 | 2.87 | 3.91 |

**Definitions**

| | |
|---|---|
| Interest-bearing net cash | Cash and securities less interest-bearing debt |
| EBITDA margin[2] | Profit before interest, tax, depreciation and amortisation as a percentage of revenue |
| EBIT margin[2] | Profit from operations as a percentage of revenue |
| Return on capital employed | Profit from operations plus financial income as a percentage of average capital employed |
| Return on equity[2] | Profit attributable to shareholders in the parent company as a percentage of average equity, H. Lundbeck A/S' shareholders |
| Solvency ratio[2] | Equity, year-end, as a percentage of equity and liabilities, year-end |
| Capital employed | Total equity and liabilities less non-interest bearing liabilities |
| Capital turnover | Revenue as a percentage of total assets, year-end |
| Earnings per share (EPS)[2] | Profit attributable to shareholders in the parent company divided by average number of shares, excl. treasury shares |
| Diluted earnings per share (DEPS)[2] | Profit attributable to shareholders in the parent company divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted |
| Cash flow per share[2] | Cash flow from operating activities divided by average number of shares, excl. treasury shares, incl. warrants, fully diluted |
| Net asset value per share[2] | Equity, H. Lundbeck A/S' shareholders, year-end, divided by number of shares, year-end, excl. treasury shares, incl. warrants, fully diluted |
| Market capitalisation | Total number of shares, year-end, multiplied by the official price quoted on NASDAQ OMX Copenhagen, year-end |
| Price/Earnings[2] | The official price quoted on NASDAQ OMX Copenhagen, year-end, divided by diluted earnings per share |
| Price/Cash flow[2] | The official price quoted on NASDAQ OMX Copenhagen, year-end, divided by cash flow per share |
| Price/Net asset value[2] | The official price quoted on NASDAQ OMX Copenhagen, year-end, divided by equity per share |

1) The calculation is based on a share denomination of DKK 5.
2) Definitions according to the Danish Society of Financial Analysts' *Recommendations & Financial Ratios 2010*.

Comparative figures including number of shares have been restated using a factor 0.9999 for the effect of employees' exercise of warrants.

# FINANCIAL REVIEW

## INCOME STATEMENT

The Group generated revenue of DKK 16,007 million in 2011, an increase of 8% relative to 2010. Measured in local currency, revenue was up 9%.

Revenue from the Group's pharmaceuticals Cipralex®/Lexapro®, Ebixa®, Azilect®, Xenazine® and Sabril® amounted to DKK 13,591 million, an increase of DKK 1,120 million, or 9%, on 2010.

Total revenue in the US market amounted to DKK 4,162 million, against DKK 3,722 million in 2010. Income concerning Forest Laboratories, Inc. (Forest) amounted to DKK 2,535 million, representing an increase of 4% relative to 2010.

Revenue in Europe was up by DKK 173 million to DKK 7,988 million, equal to an increase of 2% in DKK-terms and in local currency.

Revenue from International Markets rose to DKK 3,468 million from DKK 2,970 million in 2010. The increase in revenue was 17% in DKK-terms and also 17% in local currency. A substantial part of the increase was achieved in Canada, Japan and China and was partly offset by a decline in Turkey.

Hedging had a positive DKK 90 million net impact on consolidated revenue. Hedging gains concerning hedging of USD income from Lexapro® amounted to DKK 75 million. This amount related to hedging of the prepayments for the inventories consumed by Lundbeck's collaboration partner Forest in 2011, which Lundbeck hedged against exchange rate fluctuations and delivered in 2009-2011. Hedging gains on other currencies amounted to DKK 15 million.

Lundbeck's total costs, exclusive of net financials and tax, were DKK 12,614 million, an increase of DKK 1,206 million relative to 2010. A substantial part of the increase is attributable to restructuring costs and impairment losses in the Group's research and development functions and higher sales and marketing costs relating to new products.

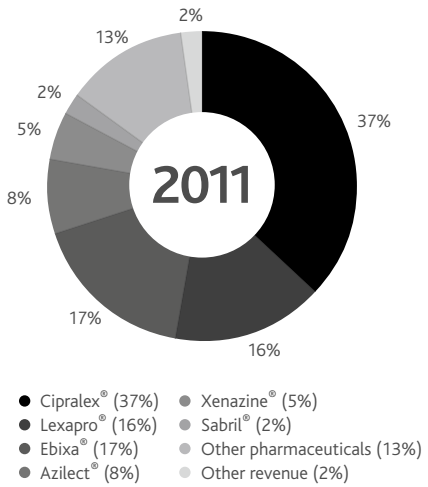
Overall cost of sales increased by DKK 208 million to DKK 3,166 million. Cost of sales, including royalties, represented 20% of revenue, which was unchanged from 2010.

The Group's sales and distribution costs rose by DKK 521 million, or 15%, primarily due to costs incurred in connection with the launch of new products, including especially Sycrest® and Onfi™. Administrative expenses amounted to DKK 2,111 million, up DKK 202 million, or 11%, on the previous year. This increase was driven primarily by the establishment of administrative functions in new regions in connection with the launch of products, higher legal and regulatory expenses as well as costs related to the agreement with Otsuka Pharmaceutical Co., Ltd. (Otsuka). Sales and distribution costs and administrative expenses amounted to 38% of revenue, against 36% in 2010.

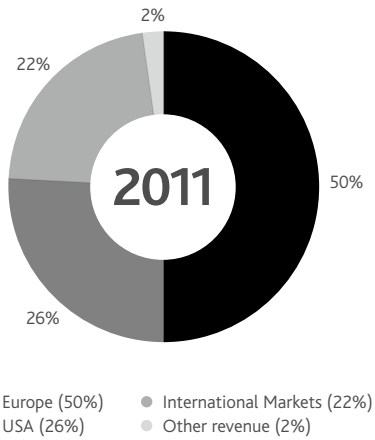
Total research and development costs were DKK 3,320 million. Compared with 2010, costs were up by DKK 275 million, or 9%. The increase was primarily attributable to restructuring costs and impairment.

Profit from operations was DKK 3,393 million, corresponding to an EBIT margin of 21.2%, against 22.7% in 2010.

**REVENUE PER PRODUCT 2011**




**REVENUE PER REGION 2011**



Net financials amounted to an expense of DKK 96 million, against DKK 68 million in 2010. Net interest expenses in respect of financial assets and financial liabilities, including realised and unrealised gains and losses on the bond portfolio, amounted to DKK 41 million, against DKK 95 million in 2010. The remaining financials, which primarily cover exchange gains and losses, amounted to a net expense of DKK 55 million, against a net income of DKK 27 million in 2010.

Tax on profit for the year amounted to DKK 1,015 million, corresponding to an effective tax rate of 30.8%, against 25.0% in 2010. The increase in the effective tax rate was primarily due to value adjustments of tax assets and non-deductable costs as well as permanent differences.

Profit for the year amounted to DKK 2,282 million, down 7% compared with 2010. Earnings per share amounted to DKK 11.63, against DKK 12.57 in 2010. Proposed dividends for 2011 amount to 30.0% of the profit for the year, and the total amount of the proposed dividends is thus DKK 685 million, or DKK 3.49 per share.

**Incentive programmes**
In 2011, the Group established incentive programmes for the Executive Management and key employees in Denmark and abroad. The programmes consist of warrants and shares as well as share price-based schemes for persons employed with the Group's subsidiaries in the USA. The vesting period is three years, and for the Executive Management vesting depends on Lundbeck's ranking in a peer group of companies. The total cost for all incentive programmes in place in 2011 is recognised in the consolidated income statement for 2011 in the amount of DKK 25 million, against DKK 13 million in 2010.

**Currency hedging**
At 31 December 2011, exchange contracts had been entered into to hedge foreign currency cash flows, equivalent to a value of approximately DKK 3.4 billion, of which DKK 2.2 billion was classified as hedging contracts. Deferred recognition of currency losses and gains amounted to a net loss of DKK 48 million at 31 December 2011, against a net loss of DKK 5 million at 31 December 2010.

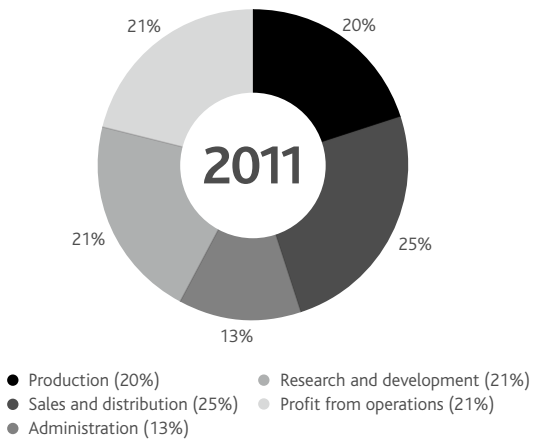
The average forward rate for USD at 31 December 2011 was approximately USD/DKK 550 for the hedging contracts concluded (USD/DKK 567 at 31 December 2010). The hedging of USD cash flows will have a profit impact primarily at the time in 2012 when Forest uses the bulk deliveries to which the hedging relates.

## BALANCE SHEET

At 31 December 2011, the Group's total assets amounted to DKK 20,534 million, which was DKK 2,529 million higher than at the end of 2010.

Intangible assets, which primarily comprise goodwill and product rights, amounted to DKK 8,445 million, against DKK 8,012 million in 2010. The increase was attributable primarily to capitalisation of acquired rights in connection with the agreement with Otsuka and was partly offset by amortisation of the Group's other assets.

**COSTS AND PROFIT FROM OPERATIONS AS A PERCENTAGE OF REVENUE 2011**



Property, plant and equipment amounted to DKK 2,814 million, against DKK 3,046 million in 2010. The decline was attributable primarily to depreciation due to the restructuring of Lundbeck Research USA, Inc. Depreciation on property, plant and equipment for the year amounted to DKK 316 million.

The Group's inventories amounted to DKK 1,634 million, up from DKK 1,491 million in 2010.

The Group's receivables were up 11% to DKK 3,226 million from DKK 2,917 million in 2010. The increase was attributable to generally higher sales.

Lundbeck's portfolio of securities and cash rose by DKK 1,595 million to DKK 3,943 million, against DKK 2,348 million in 2010. The increase was primarily due to accumulated cash flows from the year's operations.

Equity amounted to DKK 12,776 million, against DKK 11,122 million in 2010, equalling an increase of 15%, or DKK 1,654 million. Equity thus amounted to 62% of total assets, which was on a level with 2010. Dividends paid in respect of 2010 reduced equity by DKK 739 million in 2011.

Non-current liabilities amounted to DKK 3,062 million against DKK 2,836 million in 2010, and current liabilities at the end of the year were DKK 4,696 million, against DKK 4,047 million in 2010. The increase in total liabilities was due primarily to an increase in deferred tax as well as liabilities concerning Xenazine® inventories in Lundbeck Inc., USA.

## CASH FLOW STATEMENT

The Group's total cash flows were an inflow of DKK 183 million, against DKK 300 million in 2010.

Operating activities generated a cash inflow of DKK 3,624 million, against DKK 3,265 million in 2010. The increase was primarily attributable to lower tax payments and a higher EBITDA compared with 2010.

Investing activities generated a cash outflow of DKK 2,695 million, against an outflow of DKK 803 million in 2010. The primary reason for the higher level of investments was the agreement with Otsuka and investments in bonds.

Cash flows from financing activities were an outflow of DKK 746 million, against an outflow of DKK 2,162 million in 2010. 2010 was materially affected by the repayment of loans raised in connection with the acquisition in 2009 of Ovation Pharmaceuticals Inc. (Lundbeck Inc.) in the US.

# INCOME STATEMENT

1 JANUARY – 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm | 2009 DKKm |
|---|---|---|---|---|
| Revenue | 2 | 16,007 | 14,765 | 13,747 |
| Cost of sales | 3, 4 | 3,166 | 2,958 | 2,655 |
| **Gross profit** | | **12,841** | **11,807** | **11,092** |
| | | | | |
| Sales and distribution costs | 3, 4 | 4,017 | 3,496 | 3,174 |
| Administrative expenses | 3-5 | 2,111 | 1,909 | 1,864 |
| Research and development costs | 3, 4 | 3,320 | 3,045 | 3,196 |
| **Profit from operations** | | **3,393** | **3,357** | **2,858** |
| | | | | |
| Financial income | 6 | 116 | 137 | 178 |
| Financial expenses | 6 | 212 | 205 | 370 |
| **Profit before tax** | | **3,297** | **3,289** | **2,666** |
| | | | | |
| Tax on profit for the year | 7 | 1,015 | 823 | 659 |
| **Profit for the year** | 8 | **2,282** | **2,466** | **2,007** |
| | | | | |
| Earnings per share (EPS) (DKK) | 9 | 11.63 | 12.57 | 10.24 |
| Diluted earnings per share (DEPS) (DKK) | 9 | 11.63 | 12.57 | 10.24 |

# STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm | 2009 DKKm |
|---|---|---|---|---|
| **Profit for the year** | | **2,282** | **2,466** | **2,007** |
| | | | | |
| Currency translation, foreign subsidiaries | | 31 | 295 | (25) |
| Currency translation concerning additions to net investments in foreign subsidiaries | | 115 | 240 | (396) |
| Realised exchange gains/losses concerning additions to net investments in foreign subsidiaries (transferred to the income statement) | | 20 | - | - |
| Adjustments, deferred exchange gains/losses, hedging | | 84 | (213) | 7 |
| Exchange gains/losses, hedging (transferred to the hedged items) | | (127) | 163 | (1) |
| Exchange gains/losses, trading (transferred from hedging) | | - | 1 | 22 |
| Accumulated exchange loss on divestment of associate | | - | 2 | - |
| Fair value adjustment of available-for-sale financial assets | 12 | (6) | (4) | 27 |
| Tax on other comprehensive income | 7 | (23) | (47) | 93 |
| **Other comprehensive income** | 10 | **94** | **437** | **(273)** |
| | | | | |
| **Comprehensive income** | | **2,376** | **2,903** | **1,734** |

# BALANCE SHEET ASSETS

AT 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm | 2009 DKKm |
|---|---|---|---|---|
| Goodwill | | 3,865 | 3,792 | 3,520 |
| Patent rights | | 70 | 191 | 221 |
| Product rights | | 4,270 | 3,591 | 3,552 |
| Other rights | | 176 | 311 | 350 |
| Projects in progress | | 64 | 127 | 81 |
| **Intangible assets** | 11 | **8,445** | **8,012** | **7,724** |
| | | | | |
| Land and buildings | | 1,887 | 2,186 | 2,153 |
| Plant and machinery | | 405 | 374 | 460 |
| Other fixtures and fittings, tools and equipment | | 213 | 231 | 289 |
| Prepayments and assets under construction | | 309 | 255 | 147 |
| **Property, plant and equipment** | 11 | **2,814** | **3,046** | **3,049** |
| | | | | |
| Available-for-sale financial assets | 12 | 83 | 21 | 26 |
| Other receivables | 12 | 52 | 57 | 45 |
| Deferred tax | 13 | 337 | 113 | 128 |
| **Financial assets** | | **472** | **191** | **199** |
| | | | | |
| **Non-current assets** | | **11,731** | **11,249** | **10,972** |
| | | | | |
| **Inventories** | 14 | **1,634** | **1,491** | **1,481** |
| | | | | |
| Trade receivables | 15 | 2,568 | 2,105 | 1,962 |
| Income taxes | 16 | 66 | 190 | 139 |
| Other receivables | 15 | 408 | 389 | 348 |
| Prepayments | | 184 | 233 | 206 |
| **Receivables** | | **3,226** | **2,917** | **2,655** |
| | | | | |
| **Securities** | 17 | **1,476** | **54** | **59** |
| | | | | |
| **Cash** | 17 | **2,467** | **2,294** | **1,960** |
| | | | | |
| **Current assets** | | **8,803** | **6,756** | **6,155** |
| | | | | |
| **Assets** | | **20,534** | **18,005** | **17,127** |

# BALANCE SHEET EQUITY AND LIABILITIES

AT 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm | 2009 DKKm |
|---|---|---|---|---|
| Share capital | 18 | 980 | 980 | 980 |
| Share premium | 18 | 226 | 224 | 224 |
| Currency translation reserve | | (149) | (281) | (757) |
| Currency hedging reserve | 24 | (36) | (4) | 33 |
| Retained earnings | | 11,755 | 10,203 | 8,323 |
| **Equity** | | **12,776** | **11,122** | **8,803** |
| | | | | |
| Pension obligations and similar obligations | 19 | 221 | 212 | 188 |
| Deferred tax | 13 | 896 | 576 | 784 |
| Other provisions | 3, 20 | 38 | 130 | 129 |
| Bank debt | 21 | - | - | 750 |
| Mortgage debt | 21 | 1,860 | 1,858 | 1,856 |
| Employee bonds and other debt | | 47 | 60 | 65 |
| **Non-current liabilities** | | **3,062** | **2,836** | **3,772** |
| | | | | |
| Pension obligations and similar obligations | 19 | 17 | 12 | 15 |
| Other provisions | 3, 20 | 205 | 216 | 186 |
| Bank debt | 21 | - | - | 804 |
| Employee bonds | | 13 | - | - |
| Trade payables | | 1,526 | 1,237 | 997 |
| Income taxes | 16 | 136 | 75 | 121 |
| Other payables | | 2,565 | 1,990 | 1,736 |
| Prepayments from Forest | 2, 26 | 234 | 517 | 693 |
| **Current liabilities** | | **4,696** | **4,047** | **4,552** |
| | | | | |
| **Liabilities** | | **7,758** | **6,883** | **8,324** |
| | | | | |
| **Equity and liabilities** | | **20,534** | **18,005** | **17,127** |

# STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2011

| | Notes | Share capital DKKm | Share premium DKKm | Currency translation reserve DKKm | Currency hedging reserve DKKm | Retained earnings DKKm | Equity DKKm |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| **Equity at 01.01.2011** | | **980** | **224** | **(281)** | **(4)** | **10,203** | **11,122** |
| Profit for the year | | - | - | - | - | 2,282 | 2,282 |
| Other comprehensive income | 10, 24 | - | - | 132 | (32) | (6) | 94 |
| **Comprehensive income** | | **-** | **-** | **132** | **(32)** | **2,276** | **2,376** |
| Distributed dividends | | - | - | - | - | (739) | (739) |
| Capital increase through the exercise of warrants | | - | 2 | - | - | - | 2 |
| Buyback of treasury shares | | - | - | - | - | (9) | (9) |
| Incentive programmes | | - | - | - | - | 24 | 24 |
| **Other transactions** | | **-** | **2** | **-** | **-** | **(724)** | **(722)** |
| **Equity at 31.12.2011** | | **980** | **226** | **(149)** | **(36)** | **11,755** | **12,776** |
| **2010** | | | | | | | |
| **Equity at 01.01.2010** | | **980** | **224** | **(757)** | **33** | **8,323** | **8,803** |
| Profit for the year | | - | - | - | - | 2,466 | 2,466 |
| Other comprehensive income | 10, 24 | - | - | 476 | (37) | (2) | 437 |
| **Comprehensive income** | | **-** | **-** | **476** | **(37)** | **2,464** | **2,903** |
| Distributed dividends[1] | | - | - | - | - | (602) | (602) |
| Incentive programmes | | - | - | - | - | 18 | 18 |
| **Other transactions** | | **-** | **-** | **-** | **-** | **(584)** | **(584)** |
| **Equity at 31.12.2010** | | **980** | **224** | **(281)** | **(4)** | **10,203** | **11,122** |
| **2009** | | | | | | | |
| Equity at 31.12.2008 | | 984 | 224 | - | 12 | 6,372 | 7,592 |
| Restatement: Currency translation, foreign subsidiaries | | - | - | (436) | - | 355 | (81) |
| **Equity at 01.01.2009** | | **984** | **224** | **(436)** | **12** | **6,727** | **7,511** |
| Profit for the year | | - | - | - | - | 2,007 | 2,007 |
| Other comprehensive income | | - | - | (321) | 21 | 27 | (273) |
| **Comprehensive income** | | **-** | **-** | **(321)** | **21** | **2,034** | **1,734** |
| Distributed dividends, gross | | - | - | - | - | (453) | (453) |
| Distributed dividends, treasury shares | | - | - | - | - | 2 | 2 |
| Capital reduction and cancellation of treasury shares | | (4) | - | - | - | 4 | - |
| Incentive programmes | | - | - | - | - | 9 | 9 |
| **Other transactions** | | **(4)** | **-** | **-** | **-** | **(438)** | **(442)** |
| **Equity at 31.12.2009** | | **980** | **224** | **(757)** | **33** | **8,323** | **8,803** |

1) Lundbeck had no treasury shares at the time of distribution.

# CASH FLOW STATEMENT

1 JANUARY – 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm | 2009 DKKm |
|---|---|---|---|---|
| Profit from operations | | 3,393 | 3,357 | 2,858 |
| Adjustments | 22 | 1,192 | 1,080 | 699 |
| Working capital changes | 23 | (182) | 88 | 312 |
| **Cash flows from operations before financial receipts and payments** | | **4,403** | **4,525** | **3,869** |
| Financial receipts | | 54 | 60 | 129 |
| Financial payments | | (89) | (138) | (239) |
| **Cash flows from ordinary activities** | | **4,368** | **4,447** | **3,759** |
| Income tax paid for the year | 16 | (824) | (1,131) | (749) |
| Income tax paid/received regarding previous years | 16 | 80 | (51) | 24 |
| **Cash flows from operating activities** | | **3,624** | **3,265** | **3,034** |
| | | | | |
| Company acquisitions | | - | - | (5,110) |
| Change in receivables from associates | | - | 9 | - |
| Investments in intangible assets | | (1,193) | (444) | (980) |
| Sale of intangible assets | | 258 | - | - |
| Investments in property, plant and equipment | | (419) | (383) | (258) |
| Sale of property, plant and equipment | | 134 | 3 | 4 |
| Investments in financial assets | | (2,400) | (8) | (11) |
| Sale of financial assets | | 925 | 20 | 1,281 |
| **Cash flows from investing activities** | | **(2,695)** | **(803)** | **(5,074)** |
| | | | | |
| **Cash flows from operating and investing activities** | | **929** | **2,462** | **(2,040)** |
| | | | | |
| Loan proceeds | | - | - | 2,507 |
| Repayment of loans | | - | (1,560) | (999) |
| Buyback of treasury shares | | (9) | - | - |
| Employee bonds | | - | - | 8 |
| Capital contributions | | 2 | - | - |
| Dividends paid in the financial year | | (739) | (602) | (451) |
| **Cash flows from financing activities** | | **(746)** | **(2,162)** | **1,065** |
| | | | | |
| **Change in cash** | | **183** | **300** | **(975)** |
| | | | | |
| Cash at 01.01. | | 2,294 | 1,960 | 2,921 |
| Unrealised exchange adjustments for the year | | (10) | 34 | 14 |
| Change for the year | | 183 | 300 | (975) |
| **Cash at 31.12.** | 17 | **2,467** | **2,294** | **1,960** |
| | | | | |
| **Interest-bearing net cash and cash equivalents is composed as follows:** | | | | |
| Cash | | 2,467 | 2,294 | 1,960 |
| Securities | | 1,476 | 54 | 59 |
| Interest-bearing debt | | (1,920) | (1,918) | (3,475) |
| **Interest-bearing net cash and cash equivalents at 31.12.** | | **2,023** | **430** | **(1,456)** |

# NOTE 1

## 1. ACCOUNTING POLICIES

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted 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 are presented in accordance with the new and revised standards (IFRS/IAS) and interpretations (IFRIC) which apply for the financial year. This has not resulted in any changes in accounting policies that have affected recognition and measurement in the current or previous years.

**Implementation of new and amended standards and interpretations**
Lundbeck has implemented the amendments to IAS 24 *Related Party Disclosures*.

The amendment to IFRIC 14 *The Limit on a Defined Benefit Asset, the Minimum Funding Requirements and their Interaction* has eliminated the inconsistency in defined benefit pension plans with a requirement for early payment of minimum contributions. The amendment has not resulted in any changes to the calculation of pension obligations and related pension assets.

**Future IFRS changes**
At the date of the publication of these consolidated financial statements, a number of new and amended standards and interpretations have not yet entered into force or have not yet been adopted by the EU. Therefore, they are not incorporated in the consolidated financial statements.

The future amendments to IAS 19 *Employee benefits* entail that actuarial gains and losses must be recognised in the statement of comprehensive income and that such gains and losses cannot subsequently be recycled through profit or loss. It also means that the corridor approach is no longer permitted. Lundbeck currently recognises all costs associated with defined benefit pension plans under staff costs in the income statement and does not apply the corridor approach. Apart from the fact that actuarial gains and losses must henceforth be recognised in the statement of comprehensive income, the amendments are not expected to materially affect recognition or measurement in future consolidated financial statements.

None of the other new standards or amendments of existing standards are expected to have any material impact on future consolidated financial statements.

### ACCOUNTING POLICIES AND ESTIMATES CRITICAL TO FINANCIAL REPORTING

Management believes that the following accounting policies and accounting estimates are critical to the Group's financial reporting.

**Income from Forest**
The invoiced price is agreed between Forest and Lundbeck at the beginning of each calendar year. The price is calculated on the basis of expectations for the coming year's development in the components included in the royalty calculation. These components are: Forest's net selling prices, quantities used in sold products, quantities used in samples, quantities wasted during processing, and the various dosage levels of the finished goods. Income from sales of escitalopram to Forest is recognised as follows:

- Sales of escitalopram are invoiced at the agreed price, but only a proportion (the minimum price) of the invoiced price is recognised as income at the time of delivery.
- The difference between the invoiced price and the minimum price of Forest's inventories is recognised in the balance sheet as prepayments.
- After the end of each quarter, the final settlement price is calculated. The difference between the final calculated settlement price and the invoiced price is recognised as income and settled with Forest, and the difference between the invoiced price and the minimum price recognised in the balance sheet as prepayment at the time of delivery is recognised as income.

In connection with a launch of generic escitalopram in the US, the agreement allows Forest to convert escitalopram inventories into generic escitalopram. In connection with a conversion of escitalopram inventories into generic escitalopram, the minimum price will be adjusted by repayment to Forest of part of the recognised minimum payment. This adjustment will be expensed in the financial statements.

**License income and income from research collaborations**
License income and royalties from outlicensed products are recognised in the income statement under revenue when the following criteria have been met:

- The most significant risks and benefits associated with the asset sold are transferred to the buyer.
- Lundbeck does not retain 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.
- There are no further delivery obligations for Lundbeck concerning the asset sold.

Non-refundable downpayments and milestone payments relating to research collaborations are recognised in the income statement under revenue when the following criteria have been met:

- The payment relates to research results already obtained.
- The buyer has gained access to and possession of the research results.
- 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.

# NOTE 1

**Development costs**
Development costs are capitalised if the criteria for such capitalisation are deemed to have been met and it is found to be probable that future earnings will cover the development costs. Due to a very long development period and significant uncertainty in relation to the development of new products, in the opinion of Lundbeck, development costs should not normally be capitalised until the development of the product has been completed and all the necessary public registration and marketing approvals have been obtained. Otherwise, development costs will be recognised in the income statement as they are incurred.

**Intangible assets**
Goodwill and product rights represent a significant part of the Group's total assets. The majority of the value of these items arose through the acquisition of companies or the acquisition of rights. In connection with acquisitions, the individual assets and liabilities are re-assessed to ensure that both recognised and unrecognised 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. Intangible assets with indefinite lives and intangible assets in progress are tested for impairment at least once a year or if there is evidence of impairment. The value in use of the assets is calculated by discounting the estimate made by management over the expected cash flows during a budget period of at least five 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 the 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.

## RECOGNITION AND MEASUREMENT

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet if they are probable and can be measured reliably.

On initial recognition, assets and liabilities are measured at cost or fair value. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and financial liabilities are measured at amortised cost, implying the recognition of a constant effective rate of interest to maturity. Amortised cost is stated as original cost less any principal payments and plus/less the accumulated amortisation of any difference between cost and the nominal amount. Recognition and measurement take into consideration gains, losses and risks that arise before the time of presentation of the consolidated financial statements and that confirm or invalidate matters existing at the balance sheet date.

Income is recognised in the income statement as earned. Value adjustments of financial assets and financial liabilities measured at fair value or amortised cost are also recognised in the income statement. In addition, expenses incurred to generate the income for the year are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals of amounts previously recognised in the income statement as a result of changed accounting estimates.

**Consolidated financial statements**
The consolidated financial statements comprise the parent company H. Lundbeck A/S and subsidiaries controlled by the parent company. Control is achieved where the parent company directly or indirectly holds more than 50% of the voting rights or is otherwise able to exercise or actually exercises control.

Companies in which the Group holds between 20% and 50% of the voting rights and exercises significant influence but not control are regarded as associates.

***Basis of consolidation***
The consolidated financial statements are prepared on the basis of the financial statements of the parent company and the subsidiaries, which are all prepared in accordance with the Group's accounting policies.

The consolidated financial statements are prepared by adding together uniform items and eliminating intra-group income and expenses, investments, balances and dividends as well as realised and unrealised gains and losses on transactions between the consolidated companies. Account is taken of the tax effect of these eliminations.

***Business combinations***
Newly acquired businesses are recognised in the consolidated financial statements from the date of acquisition. Businesses sold or discontinued are recognised in the consolidated income statement up to the time of sale or discontinuance. Expected costs related to divestment or discontinuance are included in the calculation of gains or losses.

Acquired businesses are accounted for using the purchase method of accounting, according to which the identifiable assets, liabilities and contingent liabilities of the acquired businesses are measured at fair value at the time of acquisition. Account is taken of the tax effect of the revaluations made. The cost of a business is generally the fair value of the consideration paid. If the final determination of the consideration is contingent on one or more future events, the value thereof will be recognised at fair value at the date of acquisition. Changes to contingent considerations are recognised in the income statement. Costs directly attributable to the business combination are recognised in the income statement as incurred.

Positive differences (goodwill) between the cost of the acquired business and the fair value of the acquired identifiable assets, liabilities and contingent liabilities are recognised under intangible assets. Negative differences (negative goodwill) between the cost of the acquired business and the fair value of the acquired identifiable assets, liabilities and contingent liabilities are recognised in the income statement at the time of acquisition. Goodwill arising from acquired businesses is adjusted within a maximum

# NOTE 1

period of 12 months from the acquisition if additional information about the fair value at the time of acquisition of assets, liabilities and contingent liabilities acquired is obtained after the acquisition. However, goodwill will not be recognised by an amount exceeding the expectations of future income from the acquiree.

Goodwill and fair value adjustments in connection with the acquisition of independent foreign entities (subsidiaries) are accounted for as assets and liabilities in the acquiree and translated at the exchange rate at the balance sheet date.

***Gains or losses on disposal or discontinuance of subsidiaries***
Gains or losses on the disposal or discontinuance of subsidiaries are calculated as the difference between the selling price or the discontinuance amount and the carrying amount of net assets at the time of sale as well as anticipated costs relating to sale or discontinuance. The resulting gain or loss is recognised in the income statement together with accumulated currency translation adjustments previously recognised in other comprehensive income. A proportional capital reduction does not result in recycling of accumulated exchange adjustments through profit or loss.

**Translation of foreign currency**
On initial recognition, transactions denominated in foreign currencies are translated at standard rates which approximate the actual exchange rates at the transaction date. Exchange differences arising between the exchange rate at the transaction date and the exchange rate at the date of payment are recognised in the income statement as net financials except in case of hedge accounting. In case of hedge accounting, such differences are recognised in the same item as the hedged item.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the rates at the time the receivable or payable is created or recognised in the latest consolidated financial statements is recognised 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 as well as monetary items are translated at the exchange rates at the balance sheet date. Exchange differences arising from the translation of both the balance sheets and the income statements of the foreign subsidiaries are recognised in the Group's statement of comprehensive income under other comprehensive income.

Foreign exchange adjustments of receivables from or debt to subsidiaries that are considered part of the parent company's overall investment in the subsidiary in question are recognised in the Group's statement of comprehensive income under other comprehensive income.

**Financial instruments**
Forward exchange contracts and other derivatives are initially recognised in the balance sheet at fair value on the contract date and are 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 recognised in the Group's statement of comprehensive income under other comprehensive income. Income and expenses related to such hedging transactions are transferred from other comprehensive income on invoicing of the hedged item and recognised in the same item as the hedged item.

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

For derivatives which do not qualify for hedge accounting, changes in fair value are recognised in the income statement under net financials as they arise.

Changes in the fair value of derivatives used to hedge net investments in independent foreign subsidiaries and which otherwise meet the relevant criteria are recognised in the Group's statement of comprehensive income under 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. Level 1 includes financial assets for which the fair value is measured on the basis of quoted prices (unadjusted) in active markets for identical assets. Level 2 includes financial assets and financial liabilities for which the fair value is measured on the basis of directly or indirectly observable inputs other than the quoted prices included in level 1. Level 3 includes financial assets for which the fair value is measured on the basis of valuation techniques which include inputs not based on observable market data.

## 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 foreign revenue-based drug taxes.

Sales subject to a price adjustment clause are included in revenue at the time of delivery at the minimum price. The balance of the invoiced price is recognised in the balance sheet as a prepayment and is subsequently included in revenue when the price has been finally determined. The price is finally determined as the product is resold by the customer.

# NOTE 1

Moreover, revenue includes license income and royalties from outlicensed products as well as non-refundable downpayments and milestone payments relating to research and development collaborations and collaboration on commercialisation of products.

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

See *Accounting policies and estimates critical to financial reporting,* p. 72, for a description of the accounting treatment of income from Forest and of license income and income from research collaborations.

**Cost of sales**
Cost of sales comprises the cost of goods sold. Cost includes the cost of raw materials, transport costs, consumables and goods for resale, direct labour and indirect costs of production, including operating costs, amortisation/depreciation and impairment losses relating to manufacturing facilities. Cost of sales moreover includes expenses in connection with quality assurance of products and any writedown to net realisable value of unsaleable and slow-moving items. Also included are royalty payments concerning inlicensed products.

**Sales and distribution costs**
Sales and distribution costs comprise expenses incurred in connection with the distribution of the Group's products sold during the year and in connection with sales campaigns etc. launched during the year, including direct distribution and marketing costs, salaries, etc. for the sales and marketing functions, as well as amortisation/depreciation and impairment of product rights, for example, and other indirect costs.

**Administrative expenses**
Administrative expenses comprise expenses incurred during the year for the management and administration of the Group as well as amortisation/depreciation and impairment and other indirect costs.

**Research and development costs**
Research and development costs comprise expenses incurred during the year in connection with the Group's research and development functions, including wages and salaries, amortisation/depreciation and impairment and other indirect costs as well as costs relating to research and development collaborations on in-licensed products.

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

Development costs are capitalised if a number of specific criteria for capitalising these costs are deemed to have been met. Otherwise, development costs will be recognised in the income statement as they are incurred.

See *Accounting policies and estimates critical to financial reporting,* p. 72, for a description of conditions for capitalising development costs.

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

**Tax**
The Group's Danish subsidiaries are jointly taxed with the principal shareholder Lundbeckfond Invest A/S and its Danish subsidiaries. The current Danish 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 recognised in the income statement as regards the amount that can be attributed to the net profit or loss for the year and directly in the statement of comprehensive income under other comprehensive income as regards the amount that can be attributed to items under other comprehensive income. Exchange adjustments of deferred tax are recognised as part of the movements in deferred tax in the balance sheet.

The current tax charge for the year is calculated based on the tax rates and rules applicable at the balance sheet date.

## BALANCE SHEET

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

Goodwill is not amortised, but is tested for impairment at least once a year (impairment test), or if there is evidence of impairment.

# NOTE 1

***Development projects***
Clearly defined and identifiable development projects are recognised as intangible assets where the technical rate of utilisation of the project, the availability of adequate resources and a potential future market or development opportunity in the company can be demonstrated and where the intention is to manufacture, market or use the project if the cost can be measured reliably and it is probable that the future earnings can cover production and selling expenses, administrative expenses as well as the development costs. Other development costs are recognised in the income statement as the costs are incurred.

After completion of the development work, development costs are amortised on a straight-line basis over the expected useful life. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining term of the rights concerned. Ongoing development projects are tested for impairment at least once a year, or if there is evidence of impairment.

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

Product rights are amortised on a straight-line basis over the economic lives of the underlying products. Patents are amortised, as a maximum, over the remaining patent period, and licenses are amortised over the period of agreement. Amortisation commences when the asset is ready to be brought into use, which means at the time of commercialisation.

Amortisation is recognised in the income statement under cost of sales, sales and distribution costs, administrative expenses and research and development costs, respectively.

Borrowing costs to finance the manufacture of other intangible assets are recognised in the cost price if such borrowing costs relate to the production period. Other borrowing costs are expensed.

Gains and losses on the disposal of development projects, patents and licenses are measured as the difference between the selling price less cost to sell and the carrying amount at the time of sale.

See *Accounting policies and estimates critical to financial reporting,* p. 72, for a description of the calculation of the fair value of intangible assets.

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

Cost includes the costs of purchase and expenses directly attributable to the purchase until the asset is ready for use. In the case of assets manufactured by the company, cost includes expenses directly attributable to the manufacture of the asset, including materials, components, subsupplies and labour.

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

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the assets, which are expected to be as follows:

| | |
|---|---|
| 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 |

The depreciation base is cost less the estimated residual value at the end of the expected useful life. The cost of a total asset is divided into smaller components that are depreciated separately if such components have different useful lives. Depreciation methods, useful lives and residual values are re-assessed annually.

Depreciation is recognised in the income statement under cost of sales, sales and distribution costs, administrative expenses and research and development costs, respectively.

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred, either directly in the income statement or as part of indirect costs of production.

Costs incurred that increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and are depreciated over the expected 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 reduced by costs relating to divestment or discontinuance. Gains and losses are recognised in the income statement under the same items as the associated depreciation.

**Impairment**
Goodwill is written down through the income statement in those cases where the carrying amount exceeds the future net income expected from the cash-generating unit (CGU) to which the goodwill relates (recoverable amount). In the impairment test, the discounted expected future cash flows (value in use) for each CGU are compared to the carrying amounts of goodwill and other net assets.

The carrying amount of intangible assets and property, plant and equipment is analysed in connection with the preparation of the consolidated financial statements or if there are indications that the carrying amount of an asset may exceed the expectations of future income from the asset (recoverable amount). If this analysis concludes that the future expected net income from the asset will be lower than the carrying amount, the carrying amount will be reduced to the higher of fair value less cost to sell and value in use. Impairment losses are recognised in the income statement under the same items as the associated depreciation or amortisation.

# NOTE 1

**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 that cannot be classified as loans or receivables, financial assets measured at fair value through profit or loss, or 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 recognised in the statement of comprehensive income under other comprehensive income with the exception of prolonged impairment losses and dividends, which are taken to the income statement. When the assets are sold or settled, the accumulated fair value adjustments recognised under other comprehensive income are recycled to net financials.

**Inventories**
Raw materials, packaging and goods for resale are measured at the latest known cost at the balance sheet date, which equals cost computed according to the FIFO method. Work in progress and finished goods manufactured by the company 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 and labour as well as maintenance of and depreciation on the machines, factory buildings and equipment used in the manufacturing process as well as the cost of factory administration and management. Indirect costs of production are allocated based on the normal capacity of the production plant.

Inventories are written down to net realisable value if it is lower than the cost price. The net realisable value of inventories is calculated as the selling price less costs of conversion and costs incurred to execute the sale, and it is determined having regard to marketability, obsolescence and expected selling price developments.

**Receivables**
Current receivables comprise trade receivables and other receivables arising in the Group's normal course of business. Other receivables recognised under 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 amortised cost, which usually corresponds to the nominal value less writedowns to counter the risk of loss calculated on the basis of an individual evaluation. A provision account is used for this purpose.

**Prepayments**
Prepayments consist of expenses relating to subsequent financial years. Prepayments are measured at cost.

**Securities**
On initial recognition, securities, including the bond portfolio, which are included in the Group's documented investment strategy for excess liquidity and are recognised 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 realised and unrealised gains and losses are recognised in the income statement under net financials.

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

***Treasury shares***
Cost and selling prices of treasury shares as well as dividends are recognised 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 allocated to employees (equity schemes) are measured at the equity instruments' fair value at the date of grant and recognised in the income statement under staff costs when or as the employee obtains the right to buy/receive the shares. The balancing item is recognised 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 schemes) are measured at fair value at the date of grant and recognised in the income statement under staff costs when or as the employee obtains 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 recognised in the income statement under staff costs. The balancing item is recognised under provisions until the time of the final settlement.

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

The present value of the Group's liabilities relating to future pension payments according to defined benefit plans is measured on an actuarial basis once a year on the basis of the pensionable period of employment up to the time of the actuarial valuation. The Projected Unit Credit Method is applied to determine the present value. The present value is calculated based on assumptions of the future developments of salary, interest, inflation, mortality and disability rates and other factors. Actuarial gains and losses are recognised in the income statement as they are calculated.

# NOTE 1

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

The year's changes in the provisions relating to defined benefit plans are recognised in the income statement.

**Income tax and deferred tax**
Current tax liabilities and receivables are recognised in the balance sheet, computed as tax calculated on the taxable income for the year, adjusted for provisional tax paid.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities and their tax base, except for temporary differences arising either on initial recognition of goodwill or 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 tax rates and tax rules in force in the respective countries on the balance sheet date. Changes in deferred tax as a result of changed tax rates or tax rules are recognised in the income statement.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised in the balance sheet at the value at which the asset is expected to be realised, either through a set-off against deferred tax liabilities or as net tax assets to be offset against future positive taxable income.

Changes in deferred tax concerning the cost of share-based payments are generally recognised in the income statement.

Deferred tax in respect of recaptured losses previously deducted in foreign subsidiaries is recognised on the basis of a specific assessment of the intention with each individual subsidiary.

Balances calculated according to the rules on interest deductibility limitations in the Danish Corporate Income Tax Act 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 recognised in the balance sheet, whereas deferred tax assets are recognised only if the criteria for recognition of deferred tax assets are met.

**Other provisions**
Other provisions consist of different types of provisions, including provisions for pending lawsuits. Management makes assessments of provisions and contingent items, including the probable outcome of pending and possible future lawsuits, which inherently depends on 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.

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

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

Return obligations imposed on the industry are recognised in the balance sheet under other provisions.

**Debt**
Mortgage debt and debt to credit institutions are recognised 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 amortised cost, equivalent to the capitalised value when the effective rate of interest is used. The difference between the proceeds and the nominal value is recognised in net financials in the income statement over the loan period.

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

Other payables, which include trade payables and debt to public authorities etc. are measured at amortised 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 flows from acquisitions and divestments of companies are shown separately under cash flows from investing activities. The cash flow statement includes cash flows from acquired companies from the date of acquisition and cash flows from divested companies until the time of divestment.

Cash flows from operating activities are calculated as the Group's profit from operations, adjusted for non-cash operating items, working capital changes, financial receipts and payments and income taxes paid.

Cash flows from investing activities include payments in connection with purchases and sales of intangible assets, property, plant and equipment and financial assets, including equity investments in companies. Also included are securities classified as current assets.

Cash flows from financing activities include payments to and from shareholders and related expenses as well as the raising of, instalments and repayments on loans, mortgage debt and other long-term debt.

# NOTE 1

Cash comprises cash 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 at year-end is translated at the exchange rates at the balance sheet date, and the effect of exchange adjustments on cash is shown as a separate item in the cash flow statement.

## SEGMENT INFORMATION

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

In accordance with IFRS 8 *Operating Segments*, segments must be 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 brain disorders'.

The Group's senior operational management is the Corporate Management Group (CMG), which consists of the Group's Executive Management registered with the authorities and persons in charge of the function areas External Scientific Relations & Patents, Business Development, HR, Legal and Supply, Operations & Engineering. CMG 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.

## KEY FIGURES

Key figures are calculated according to *Recommendations and Financial Ratios 2010* issued by the Danish Society of Financial Analysts.

For definitions of key figures see *Summary for the Group 2007-2011,* pp. 62-63.

# NOTES 2-3

## 2. SEGMENT INFORMATION

The Group is engaged in research, development, production and sale of pharmaceuticals for the treatment of brain disorders, which is the Group's reporting segment. The business segment reflects the internal management reporting.

In the table below, the Group's revenue is broken down by key products and regions.

| 2011 | Europe DKKm | USA DKKm | Int. Markets DKKm | Group DKKm |
|---|---|---|---|---|
| Cipralex® | 3,717 | - | 2,240 | 5,957 |
| Lexapro® | - | 2,535 | - | 2,535 |
| Ebixa® | 2,323 | - | 428 | 2,751 |
| Azilect® | 1,087 | - | 100 | 1,187 |
| Xenazine® | 35 | 817 | - | 852 |
| Sabril® | - | 309 | - | 309 |
| Other pharmaceuticals | 826 | 501 | 700 | 2,027 |
| Other revenue | | | | 389 |
| **Total revenue** | **7,988** | **4,162** | **3,468** | **16,007** |
| **Of this amount:** | | | | |
| Downpayments and milestone payments | | | | 203 |
| Royalty | | | | 640 |

Of total revenue, DKK 71 million derived from sales in Denmark.

| 2010 | Europe DKKm | USA DKKm | Int. Markets DKKm | Group DKKm |
|---|---|---|---|---|
| Cipralex® | 3,929 | - | 1,879 | 5,808 |
| Lexapro® | - | 2,443 | - | 2,443 |
| Ebixa® | 2,040 | - | 363 | 2,403 |
| Azilect® | 932 | - | 96 | 1,028 |
| Xenazine® | 33 | 577 | - | 610 |
| Sabril® | - | 179 | - | 179 |
| Other pharmaceuticals | 881 | 523 | 632 | 2,036 |
| Other revenue | | | | 258 |
| **Total revenue** | **7,815** | **3,722** | **2,970** | **14,765** |
| **Of this amount:** | | | | |
| Downpayments and milestone payments | | | | 37 |
| Royalty | | | | 619 |

Of total revenue, DKK 104 million derived from sales in Denmark.

**Income from Forest in the US**

Income from sales of citalopram and escitalopram concerning Forest amounted to DKK 2,535 million in 2011 (DKK 2,443 million in 2010) based on the minimum price for this year's shipments and adjustments of prepayments concerning prior-year shipments. Prepayments, which is the difference between the invoiced price and the minimum price, were DKK 234 million at 31 December 2011 (DKK 517 million in 2010). See Note 1 *Accounting policies* for a more elaborate description hereof.

The agreement with Forest takes into consideration the expiry of the escitalopram patent protection in the US in 2012. Prior to any launch of generic escitalopram, Forest is expected to reduce its escitalopram inventories to a low level.

Developments in Forest's inventories and net selling price are monitored closely, and the risk of the price adjustment clause and repayment of the prepayment being applied is regularly assessed. It is believed that there is presently no repayment risk.

## 3. STAFF COSTS

**Wages and salaries, etc.**

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Short-term staff benefits | 3,228 | 2,962 |
| Pension benefits | 200 | 215 |
| Other social security costs | 387 | 369 |
| Share-based payments | 25 | 13 |
| **Total** | **3,840** | **3,559** |
| **The year's staff costs are specified as follows:** | | |
| Cost of sales | 458 | 458 |
| Sales and distribution costs | 1,220 | 1,120 |
| Administrative expenses | 1,076 | 1,021 |
| Research and development costs | 1,086 | 960 |
| **Total** | **3,840** | **3,559** |

| **Executives**[1] | | |
|---|---|---|
| Short-term staff benefits | 71 | 65 |
| Pension benefits | 12 | 11 |
| Other social security costs | 2 | - |
| Share-based payments | 11 | 6 |
| **Total** | **96** | **82** |

1) Executives are individuals who report directly to the Executive Management.

**Executive Management**

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Short-term staff benefits | 30 | 30 |
| Severance package | 8 | - |
| Pension benefits | 5 | 6 |
| Share-based payments | 3 | 4 |
| **Total** | **46** | **40** |

In 2011, the Executive Management was reduced from six to four members.

The total remuneration of the CEO, including bonus, which is a combination of company strategic and individual targets, and share-based payments, amounted to DKK 12.5 million for the 2011 financial year (DKK 11.5 million in 2010).

# NOTE 3

## 3. STAFF COSTS – CONTINUED

The fair value of the warrant schemes and share schemes for the Executive Management, vested and calculated according to the Black-Scholes method, was DKK 4.4 million at 31 December 2011 (DKK 16.0 million in 2010).

The members of the 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 the Executive Management may receive up to six months' base salary as a bonus on condition of achievement of exceptional results.

A severance package of DKK 8.2 million was agreed for the Executive Vice President who resigned in 2011.

**Board of Directors**
The total remuneration of the Board of Directors for 2011 amounted to DKK 5.7 million (DKK 5.7 million in 2010). The amount includes remuneration for participation in the Audit Committee of DKK 0.7 million (DKK 0.7 million in 2010), for participation in the Remuneration Committee of DKK 0.7 million (DKK 0.7 million in 2010) and for participation in the Scientific Committee of DKK 0.7 million (DKK 0.7 million in 2010). The remuneration for 2011 is consistent with that presented at the Annual General Meeting held on 30 March 2011.

The members of the Board of Directors held a total of 9,734 Lundbeck shares at 31 December 2011 (46,072 shares in 2010).

The total remuneration for 2011 of the chairman of the Board of Directors amounted to DKK 1.4 million (DKK 1.2 million in 2010). The amount includes remuneration for participation in the Audit Committee and the Remuneration Committee for the chairman elected at the Annual General Meeting held on 30 March 2011 as well as remuneration for participation in the Remuneration Committee for the retiring chairman. The total remuneration for 2011 of the deputy chairman of the Board of Directors amounted to DKK 0.8 million (DKK 0.8 million in 2010), including remuneration for participation in the Audit Committee.

**Number of employees**

| | 2011 | 2010 |
|---|---|---|
| **Average number of full-time employees in the financial year** | **5,690** | **5,689** |
| **Number of full-time employees at 31.12.** | | |
| In Denmark | 1,929 | 1,982 |
| Abroad | 3,807 | 3,662 |
| **Total** | **5,736** | **5,644** |

**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 schemes, and the tables below show all the incentive programmes in place in 2010 and 2011.

**Equity-based schemes**
In the 2011 financial year, equity-based schemes consisted of warrant schemes and share schemes granted in the period 2007-2011.

The performance of the Lundbeck share in 2011 is illustrated in the chart in the section *The Lundbeck share,* p. 51.

In April 2011, the company established a warrant scheme and a share scheme for the Executive Management and a number of key employees in Denmark and abroad. 112 employees were granted a total of 849,085 warrants and 156,360 shares, of which the Executive Management registered at the date of grant was allocated 381,224 warrants and 35,762 shares. The warrants and shares will vest at 31 March 2014 subject to the employee still being employed with Lundbeck. For members of the Executive Management, award of the number of warrants and shares is also subject to H. Lundbeck A/S' ranking in a peer group of companies. The ranking in the peer group of companies is based on the Total Shareholder Return over a three-year period. The warrants are exercisable during the period 1 April 2014 to 31 March 2019 at an exercise price of DKK 121.00.

The fair value per warrant at the time of grant is calculated using the Black-Scholes method and is based on a volatility of 31.03%, a dividend payout ratio of 2.50%, a risk-free interest rate of 2.99%, an average maturity of approximately 66 months and a share price of DKK 121.20. This translates into a fair value of DKK 30.10 per warrant. The volatility is based on daily data during the period 1 April 2006 to 1 April 2011. The fair value at the time of grant was DKK 121.20 per share.

In November 2011, the company established a share scheme for a number of key employees in Denmark and abroad. 30 employees were granted a total of 383,602 shares. The shares will vest at 30 June 2014 subject to the employee still being employed with Lundbeck. The fair value at the time of grant was DKK 114.29 per share.

Warrants and shares allocated to key employees in 2008 vested in 2011. Warrants allocated to the Executive Management in 2008 were cancelled for members of the Executive Management at the time of grant, as the vesting conditions were not met. Shares allocated to the Executive Management in 2008 vested in 2011.

In 2011, 19,284 warrants were exercised. The weighted average share price of exercised warrants was DKK 132.73.

# NOTE 3

## 3. STAFF COSTS – CONTINUED

| Warrant schemes | 2007 | 2008 | 2008 | 2009 | 2010 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| Number of employees covered by the scheme | 80 | 87 | 1 | 98 | 101 | 16 | 112 |
| Total number of warrants granted | 844,500 | 405,234 | 134,310 | 534,058 | 765,979 | 24,971 | 849,085 |
| Number of warrants granted to the Executive Management | 173,000 | 219,618 | 134,310 | 333,811 | 507,885 | - | 381,224 |
| Vested at | immediately | 06.05.11 | 02.06.11 | 16.03.12 | 16.03.13 | 16.03.13 | 31.03.14 |
| Exercise period begins | 01.08.08 | 06.05.11 | 02.06.11 | 16.03.12 | 16.03.13 | 16.03.13 | 01.04.14 |
| Exercise period ends | 31.03.11 | 05.05.16 | 01.06.16 | 15.03.17 | 15.03.18 | 15.03.18 | 31.03.19 |
| Exercise price, DKK | 156.00 | 115.00 | 115.00 | 102.00 | 97.00 | 97.00 | 121.00 |

| Share schemes | 2008 | 2008 | 2009 | 2010 | 2010 | 2011 | 2011 |
|---|---|---|---|---|---|---|---|
| Number of employees covered by the scheme | 87 | 1 | 98 | 101 | 16 | 112 | 30 |
| Total number of shares granted | 71,870 | 2,739 | 92,627 | 96,355 | 6,334 | 156,360 | 383,602 |
| Number of shares granted to the Executive Management | 12,429 | 2,739 | 20,794 | 22,308 | - | 35,762 | - |
| Vested at | 06.05.11 | 02.06.11 | 16.03.12 | 16.03.13 | 16.03.13 | 31.03.14 | 30.06.14 |
| Fair value at date of grant, DKK | 120.25 | 117.75 | 98.75 | 99.55 | 95.70 | 121.20 | 114.29 |

### 2011

| Year of grant | 01.01. Number | Grant Number | Reclassification Number | Exercise/ settlement Number | Cancellation Number | 31.12. Number |
|---|---|---|---|---|---|---|
| **Executive Management** | | | | | | |
| 2007, warrants[1] | 180,000 | - | - | - | (180,000) | - |
| 2008, warrants | 353,928 | - | 4,710 | - | (353,928) | 4,710 |
| 2008, shares | 15,168 | - | - | (15,168) | - | - |
| 2009, warrants | 333,811 | - | (76,827) | - | (46,741) | 210,243 |
| 2009, shares | 20,794 | - | - | - | (3,356) | 17,438 |
| 2010, warrants | 507,885 | - | (116,358) | - | (71,113) | 320,414 |
| 2010, shares | 22,308 | - | (4,707) | - | (3,600) | 14,001 |
| 2011, warrants | - | 381,224 | (74,778) | - | (51,898) | 254,548 |
| 2011, shares | - | 35,762 | (6,291) | - | (5,771) | 23,700 |
| **Total, Executive Management** | **1,433,894** | **416,986** | **(274,251)** | **(15,168)** | **(716,407)** | **845,054** |
| | | | | | | |
| **Executives** | | | | | | |
| 2007, warrants[1] | 231,000 | - | - | - | (231,000) | - |
| 2008, warrants | 58,352 | - | 406 | (3,432) | - | 55,326 |
| 2008, shares | 18,818 | - | - | (18,818) | - | - |
| 2009, warrants | 75,127 | - | 83,829 | - | - | 158,956 |
| 2009, shares | 23,505 | - | 2,231 | - | - | 25,736 |
| 2010, warrants | 79,406 | - | 124,096 | - | - | 203,502 |
| 2010, shares | 22,781 | - | 4,707 | - | - | 27,488 |
| 2011, warrants | - | 174,026 | 74,778 | - | (10,348) | 238,456 |
| 2011, shares | - | 254,566 | 6,291 | - | (22,718) | 238,139 |
| **Total, executives** | **508,989** | **428,592** | **296,338** | **(22,250)** | **(264,066)** | **947,603** |

# NOTE 3

## 3. STAFF COSTS – CONTINUED

### 2011

| Year of grant | 01.01. Number | Grant Number | Reclassification Number | Exercise/ settlement Number | Cancellation Number | 31.12. Number |
|---|---|---|---|---|---|---|
| **Other** | | | | | | |
| 2007, warrants[1] | 433,500 | - | - | - | (433,500) | - |
| 2008, warrants | 116,837 | - | (5,116) | (15,852) | (4,035) | 91,834 |
| 2008, shares | 37,256 | - | - | (35,519) | (1,303) | 434 |
| 2009, warrants | 119,907 | - | (7,002) | - | (4,185) | 108,720 |
| 2009, shares | 46,207 | - | (2,231) | - | (1,701) | 42,275 |
| 2010, warrants | 203,659 | - | (7,738) | - | (8,028) | 187,893 |
| 2010, shares | 57,600 | - | - | - | (2,304) | 55,296 |
| 2011, warrants | - | 293,835 | - | - | (736) | 293,099 |
| 2011, shares | - | 249,634 | - | - | (189) | 249,445 |
| **Total, other** | **1,014,966** | **543,469** | **(22,087)** | **(51,371)** | **(455,981)** | **1,028,996** |
| **Total** | **2,957,849** | **1,389,047** | **-** | **(88,789)** | **(1,436,454)** | **2,821,653** |
| Average exercise price of warrants (DKK) | 120.02 | 121.00 | - | 138.59 | 115.00 | 108.27 |

1) The warrant scheme established in 2007 expired at 31 March 2011.

### 2010

| Year of grant | 01.01. Number | Grant Number | Reclassification Number | Exercise/ settlement Number | Cancellation Number | 31.12. Number |
|---|---|---|---|---|---|---|
| **Executive Management** | | | | | | |
| 2007, warrants | 180,000 | - | - | - | - | 180,000 |
| 2008, warrants | 353,928 | - | - | - | - | 353,928 |
| 2008, shares | 15,168 | - | - | - | - | 15,168 |
| 2009, warrants | 333,811 | - | - | - | - | 333,811 |
| 2009, shares | 20,794 | - | - | - | - | 20,794 |
| 2010, warrants | - | 507,885 | - | - | - | 507,885 |
| 2010, shares | - | 22,308 | - | - | - | 22,308 |
| **Total, Executive Management** | **903,701** | **530,193** | **-** | **-** | **-** | **1,433,894** |
| **Executives** | | | | | | |
| 2007, warrants | 303,100 | - | (72,100) | - | - | 231,000 |
| 2008, warrants | 65,783 | - | (7,431) | - | - | 58,352 |
| 2008, shares | 21,310 | - | (2,492) | - | - | 18,818 |
| 2009, warrants | 77,020 | - | (1,893) | - | - | 75,127 |
| 2009, shares | 24,338 | - | (833) | - | - | 23,505 |
| 2010, warrants | - | 85,481 | (6,075) | - | - | 79,406 |
| 2010, shares | - | 24,525 | (1,744) | - | - | 22,781 |
| **Total, executives** | **491,551** | **110,006** | **(92,568)** | **-** | **-** | **508,989** |

# NOTE 3

## 3. STAFF COSTS – CONTINUED

**2010**

| Year of grant | 01.01. Number | Grant Number | Reclassification Number | Exercise/ settlement Number | Cancellation Number | 31.12. Number |
|---|---|---|---|---|---|---|
| **Other** | | | | | | |
| 2007, warrants | 361,400 | - | 72,100 | - | - | 433,500 |
| 2008, warrants | 109,406 | - | 7,431 | - | - | 116,837 |
| 2008, shares | 34,764 | - | 2,492 | - | - | 37,256 |
| 2009, warrants | 118,014 | - | 1,893 | - | - | 119,907 |
| 2009, shares | 45,374 | - | 833 | - | - | 46,207 |
| 2010, warrants | - | 197,584 | 6,075 | - | - | 203,659 |
| 2010, shares | - | 55,856 | 1,744 | - | - | 57,600 |
| **Total, other** | **668,958** | **253,440** | **92,568** | **-** | **-** | **1,014,966** |
| **Total** | **2,064,210** | **893,639** | **-** | **-** | **-** | **2,957,849** |
| Average exercise price of warrants (DKK) | 129.59 | 97.00 | - | - | - | 120.02 |

| Preconditions for warrant schemes at 31.12.2011 | Executive Management 2008 | Employees 2008 | Executive Management 2009 | Employees 2009 | Executive Management 2010 | Employees 2010 | Employees 2010 | Executive Management 2011 | Employees 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Exercise price, DKK | 115.00 | 115.00 | 102.00 | 102.00 | 97.00 | 97.00 | 97.00 | 121.00 | 121.00 |
| Share price, DKK | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 |
| Volatility, % | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 |
| Dividend payout ratio, % | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Risk-free interest rate, % | 0.04 | 0.04 | 0.28 | 0.28 | 0.28 | 0.28 | 0.28 | 0.56 | 0.56 |
| Fair value per warrant, DKK | 12.90 | 12.90 | - | 23.90 | 11.20 | 25.60 | 25.60 | 13.70 | 20.30 |

| Preconditions for warrant schemes at 31.12.2010 | 2007 | Executive Management 2008 | CEO 2008 | Employees 2008 | Executive Management 2009 | Employees 2009 | Executive Management 2010 | Employees 2010 | Employees 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Exercise price, DKK | 156.00 | 115.00 | 115.00 | 115.00 | 102.00 | 102.00 | 97.00 | 97.00 | 97.00 |
| Share price, DKK | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 |
| Volatility, % | 20.95 | 31.40 | 31.40 | 31.40 | 31.40 | 31.40 | 31.40 | 31.40 | 31.40 |
| Dividend payout ratio, % | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Risk-free interest rate, % | 1.12 | 1.70 | 1.70 | 1.34 | 2.06 | 2.06 | 2.06 | 2.06 | 2.06 |
| Fair value per warrant, DKK | - | - | - | 17.00 | 7.40 | 28.70 | 18.40 | 30.30 | 30.30 |

# NOTE 3

## 3. STAFF COSTS – CONTINUED

**Debt-based schemes**

The existing debt-based schemes consist of Stock Appreciation Rights and Restricted Cash Units awarded during the period 2008-2011.

In April 2011, a few employees of US subsidiaries were granted Stock Appreciation Rights (SARs), a share price-based scheme with conditions and award criteria similar to those of the warrant scheme granted in April 2011 to a number of key employees of the parent company and its non-US subsidiaries. The allocated SARs will vest at 31 March 2014 subject to the employee still being employed with Lundbeck. The allocated SARs are exercisable during the period 1 April 2014 to 31 March 2019. The size of the amount depends on how much the price of the Lundbeck share at the exercise date exceeds DKK 121.00 per share. The share price-based scheme for employees of the Group's US subsidiaries cannot be converted into shares because the value of the scheme is distributed as a cash amount.

The fair value per SAR at the time of grant is calculated using the Black-Scholes method and is based on a volatility of 31.03%, a dividend payout ratio of 2.50%, a risk-free interest rate of 2.99%, an average maturity of approximately 66 months and a share price of DKK 121.20. This translates into a fair value of DKK 30.10 per SAR. The volatility is based on daily data during the period 1 April 2006 to 1 April 2011, which corresponds to the expected outstanding duration of the scheme.

In April 2011, a few employees of US subsidiaries were granted Restricted Cash Units (RCUs), a share price-based scheme with conditions and award criteria similar to those of the share scheme granted in April 2011 to a number of key employees of the parent company and its non-US subsidiaries. The allocated RCUs will vest at 31 March 2014 subject to the employee still being employed with Lundbeck, after which time they are settled. The size of the amount depends on the value of the Lundbeck share at the vesting date. The share price-based scheme for employees of the Group's US subsidiaries cannot be converted into shares because the value of the scheme is distributed as a cash amount. The fair value per RCU at the time of grant was calculated at DKK 121.20.

In November 2011 a few employees of US subsidiaries were granted Restricted Cash Units (RCUs), a share price-based scheme with conditions and award criteria similar to those of the share scheme granted in November 2011 to a number of key employees of the parent company and its non-US subsidiaries. The allocated RCUs will vest at 30 June 2014 subject to the employee still being employed with Lundbeck, after which time they are settled. The size of the amount depends on the value of the Lundbeck share at the vesting date. The share price-based scheme for employees of the Group's US subsidiaries cannot be converted into shares because the value of the scheme is distributed as a cash amount. The fair value per RCU at the time of grant was calculated at DKK 114.29.

The fair value calculations do not take any employee attrition into consideration.

SARs allocated in 2008 vested in 2011. RCUs allocated in 2008 vested in 2011, after which time the scheme was settled.

**2011**

| Year of grant | 01.01. Number | Grant Number | Reclassification Number | Exercise/ settlement Number | Cancellation[1] Number | 31.12. Number |
|---|---|---|---|---|---|---|
| **Executives** | | | | | | |
| 2008, SARs | 2,258 | - | (2,258) | - | - | - |
| 2008, RCUs | 814 | - | - | (814) | - | - |
| 2009, SARs | 53,003 | - | (53,003) | - | - | - |
| 2009, RCUs | 21,656 | - | (21,656) | - | - | - |
| 2010, SARs | 18,068 | - | (3,750) | - | (14,318) | - |
| 2010, RCUs | 5,184 | - | (1,076) | - | (4,108) | - |
| 2011, SARs | - | 18,087 | (3,368) | - | - | 14,719 |
| 2011, RCUs | - | 28,214 | (868) | - | - | 27,346 |
| **Total, executives** | **100,983** | **46,301** | **(85,979)** | **(814)** | **(18,426)** | **42,065** |
| **Other** | | | | | | |
| 2008, SARs | - | - | 2,258 | - | - | 2,258 |
| 2009, SARs | 57,888 | - | 53,003 | - | (108,539) | 2,352 |
| 2009, RCUs | 224,008 | - | 21,656 | - | (244,819) | 845 |
| 2010, SARs | 889 | - | 3,750 | - | - | 4,639 |
| 2010, RCUs | 255 | - | 1,076 | - | - | 1,331 |
| 2011, SARs | - | 35,745 | 3,368 | - | - | 39,113 |
| 2011, RCUs | - | 38,019 | 868 | - | - | 38,887 |
| **Total, other** | **283,040** | **73,764** | **85,979** | **-** | **(353,358)** | **89,425** |
| **Total** | **384,023** | **120,065** | **-** | **(814)** | **(371,784)** | **131,490** |

**2010**

| Year of grant | 01.01. Number | Grant Number | Reclassification Number | Exercise/ settlement Number | Cancellation[1] Number | 31.12. Number |
|---|---|---|---|---|---|---|
| **Executives** | | | | | | |
| 2008, SARs | 2,258 | - | - | - | - | 2,258 |
| 2008, RCUs | 814 | - | - | - | - | 814 |
| 2009, SARs | 89,182 | - | 7,236 | - | (43,415) | 53,003 |
| 2009, RCUs | 19,055 | - | 7,804 | - | (5,203) | 21,656 |
| 2010, SARs | - | 35,171 | - | - | (17,103) | 18,068 |
| 2010, RCUs | - | 10,091 | - | - | (4,907) | 5,184 |
| **Total, executives** | **111,309** | **45,262** | **15,040** | **-** | **(70,628)** | **100,983** |
| **Other** | | | | | | |
| 2009, SARs | 79,596 | - | (7,236) | - | (14,472) | 57,888 |
| 2009, RCUs | 277,683 | - | (7,804) | - | (45,871) | 224,008 |
| 2010, SARs | - | 889 | - | - | - | 889 |
| 2010, RCUs | - | 255 | - | - | - | 255 |
| **Total, other** | **357,279** | **1,144** | **(15,040)** | **-** | **(60,343)** | **283,040** |
| **Total** | **468,588** | **46,406** | **-** | **-** | **(130,971)** | **384,023** |

1) SARs and RCUs were cancelled as the vesting conditions were not met in the US subsidiaries.

# NOTE 3

## 3. STAFF COSTS – CONTINUED

| Preconditions for debt-based schemes at 31.12.2011 | SARs 2008 | SARs 2009 | RCUs 2009 | SARs 2010 | RCUs 2010 | SARs 2011 | RCUs 2011 | RCUs 2011 |
|---|---|---|---|---|---|---|---|---|
| Exercise price, DKK | 119.76 | 102.00 | - | 97.00 | - | 121.00 | - | - |
| Share price, DKK | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 | 108.00 |
| Volatility, % | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 |
| Dividend payout ratio, % | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Risk-free interest rate, % | 0.04 | 0.28 | 0.28 | 0.28 | 0.28 | 0.56 | 0.56 | 0.08 |
| Fair value per SAR/RCU, DKK | 14.30 | 24.80 | 105.80 | 25.60 | 105.70 | 20.30 | 103.50 | 101.20 |
| Vested at | 11.08.11 | 01.07.12 | 01.07.12 | 16.03.13 | 16.03.13 | 31.03.14 | 31.03.14 | 30.06.14 |
| Exercise period begins | 11.08.11 | 01.07.12 | - | 16.03.13 | - | 01.04.14 | - | - |
| Exercise period ends | 10.08.16 | 30.06.17 | - | 15.03.18 | - | 31.03.19 | - | - |

| Preconditions for debt-based schemes at 31.12.2010 | SARs 2008 | RCUs 2008 | SARs 2009 | RCUs 2009 | SARs 2010 | RCUs 2010 |
|---|---|---|---|---|---|---|
| Exercise price, DKK | 119.76 | - | 102.00 | - | 97.00 | - |
| Share price, DKK | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 | 106.00 |
| Volatility, % | 31.40 | 31.40 | 31.40 | 31.40 | 31.40 | 31.40 |
| Dividend payout ratio, % | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Risk-free interest rate, % | 1.34 | 1.34 | 2.06 | 2.06 | 2.06 | 2.06 |
| Fair value per SAR/RCU, DKK | 18.00 | 104.40 | 29.60 | 102.80 | 30.30 | 102.60 |
| Vested at | 11.08.11 | 11.08.11 | 01.07.12 | 01.07.12 | 16.03.13 | 16.03.13 |
| Exercise period begins | 11.08.11 | - | 01.07.12 | - | 16.03.13 | - |
| Exercise period ends | 10.08.16 | - | 30.06.17 | - | 15.03.18 | - |

**Fair value, liability and expense recognised in the income statement**

The warrants and shares granted are recognised in the income statement for 2011 at an expense corresponding to the fair value at the time of grant calculated according to the Black-Scholes method for the vesting period to date. For the warrants and shares in the 2008, 2009, 2010 and 2011 programmes that depend on the Lundbeck share's ranking in the peer group of companies, the recognised expense was calculated with due consideration to fulfilment of the vesting conditions.

The SARs granted are recognised in the income statement for 2011 at an expense corresponding to the value adjustment for the year based on the Black-Scholes method, and the RCUs granted are recognised in the income statement for 2011 at an expense corresponding to the value adjustment for the year based on the performance of the Lundbeck share.

# NOTES 3-4

## 3. STAFF COSTS – CONTINUED

| 2011 | Fair value 31.12. DKKm | Expense recognised in the income statement DKKm |
|---|---|---|
| **Equity-based schemes** | | |
| 2008, warrants | 2 | 1 |
| 2008, shares | - | 1 |
| 2009, warrants | 6 | 4 |
| 2009, shares | 10 | 2 |
| 2010, warrants | 15 | 3 |
| 2010, shares | 10 | 3 |
| 2011, warrants | 14 | 4 |
| 2011, shares | 55 | 6 |
| **Total** | **112** | **24** |

**Debt-based schemes for 2011**
At 31 December 2011, the total liability in respect of debt-based schemes amounted to DKK 1 million. The liability covers all debt-based schemes in force at 31 December 2011. The total expense for debt-based schemes recognised in the income statement for 2011 amounted to DKK 1 million. The expense covers all debt-based schemes in force in 2011.

The total expense recognised in the income statement for all incentive programmes amounted to DKK 25 million for 2011.

| 2010 | Fair value 31.12. DKKm | Expense recognised in the income statement DKKm |
|---|---|---|
| **Equity-based schemes** | | |
| 2008, warrants | 3 | 2 |
| 2008, shares | 7 | 3 |
| 2009, warrants | 8 | 3 |
| 2009, shares | 9 | 3 |
| 2010, warrants | 18 | 4 |
| 2010, shares | 11 | 3 |
| **Total** | **56** | **18** |

| 2010 | Liability 31.12. DKKm | Expense recognised in the income statement DKKm |
|---|---|---|
| **Debt-based schemes** | | |
| 2009, SARs | - | (1) |
| 2009, RCUs | - | (5) |
| 2010, SARs | 1 | 1 |
| **Total** | **1** | **(5)** |

The total expense recognised in the income statement for all incentive programmes amounted to DKK 13 million for 2010.

## 4. AMORTISATION, DEPRECIATION AND IMPAIRMENT

| 2011 | Intangible assets DKKm | Property, plant and equipment DKKm | Total DKKm |
|---|---|---|---|
| **Amortisation, depreciation and impairment for the year are specified as follows:** | | | |
| Cost of sales | 99 | 57 | 156 |
| Sales and distribution costs | 391 | 10 | 401 |
| Administrative expenses | 22 | 54 | 76 |
| Research and development costs | 216 | 386 | 602 |
| **Total** | **728** | **507** | **1,235** |

An impairment loss on other rights totalling DKK 47 million is included in cost of sales in the amount of DKK 31 million, in administrative expenses in the amount of DKK 5 million and in research and development costs in the amount of DKK 11 million.

An impairment loss on patent rights totalling DKK 95 million is included in research and development costs.

An impairment loss on property, plant and equipment totalling DKK 283 million mainly consists of impairment of land and buildings in the US. The impairment loss is included in cost of sales in the amount of DKK 21 million, in administrative expenses in the amount of DKK 4 million and in research and development costs in the amount of DKK 258 million.

Losses and gains on the sale of intangible assets and property, plant and equipment are recognised at a net gain of DKK 92 million. Of this amount, the gain from the sale of production facilities in the UK amounts to DKK 95 million.

| 2010 | Intangible assets DKKm | Property, plant and equipment DKKm | Total DKKm |
|---|---|---|---|
| **Amortisation, depreciation and impairment for the year are specified as follows:** | | | |
| Cost of sales | 93 | 165 | 258 |
| Sales and distribution costs | 418 | 9 | 427 |
| Administrative expenses | 19 | 55 | 74 |
| Research and development costs | 115 | 162 | 277 |
| **Total** | **645** | **391** | **1,036** |

Sales and distribution costs include a DKK 48 million impairment loss concerning product rights.

Losses and gains on the sale of intangible assets and property, plant and equipment are recognised at a net loss of DKK 33 million.

# NOTES 5-7

## 5. AUDIT FEES

| Deloitte Statsautoriseret Revisionspartnerselskab | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Statutory audit | 7 | 7 |
| Tax consulting | 1 | 1 |
| Other services | 4 | 4 |
| **Total** | **12** | **12** |

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

## 6. NET FINANCIALS

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Financial income** | | |
| Interest on financial assets measured at amortised cost | 29 | 14 |
| Gains on available-for-sale financial assets, incl. dividends | 14 | 5 |
| Gains on financial assets measured at fair value through profit or loss | 20 | - |
| Gains on impaired loan to associate | - | 9 |
| Gains on financial instruments included in the trading portfolio | 3 | 2 |
| Exchange gains | 46 | 107 |
| Realised exchange gains concerning additions to net investments in foreign subsidiaries (transferred from other comprehensive income) | 4 | - |
| **Total financial income** | **116** | **137** |
| **Financial expenses** | | |
| Interest on financial liabilities measured at amortised cost | 87 | 109 |
| Other financial expenses | 12 | 17 |
| Losses on available-for-sale financial assets | 3 | - |
| Losses on financial assets measured at fair value through profit or loss | 3 | - |
| Losses on financial instruments included in the trading portfolio | 1 | 3 |
| Exchange losses | 82 | 76 |
| Realised exchange losses concerning additions to net investments in foreign subsidiaries (transferred from other comprehensive income) | 24 | - |
| **Total financial expenses** | **212** | **205** |
| **Net financials** | **(96)** | **(68)** |

At 31 December 2011, Lundbeck recorded a net gain on available-for-sale financial assets of DKK 11 million (DKK 5 million in 2010). The profit impact of financial assets measured at fair value through profit or loss amounted to DKK 17 million at 31 December 2011 (profit impact of DKK 0 million in 2010). The net gain on financial instruments included in the trading portfolio was DKK 2 million (a net loss of DKK 1 million in 2010). The net exchange loss, including net realised exchange loss transferred from other comprehensive income, was DKK 56 million at 31 December 2011 (a net exchange gain of DKK 31 million in 2010).

## 7. TAX ON PROFIT FOR THE YEAR

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Current tax | 910 | 1,037 |
| Prior-year adjustments, current tax | 11 | 49 |
| Prior-year adjustments, deferred tax | 12 | (24) |
| Change of deferred tax for the year | 105 | (192) |
| **Total tax for the year** | **1,038** | **870** |
| **Tax for the year is composed of:** | | |
| Tax on profit for the year | 1,015 | 823 |
| Tax on other comprehensive income | 23 | 47 |
| **Total tax for the year** | **1,038** | **870** |
| **Tax on other comprehensive income is specified as follows:** | | |
| Currency translation concerning additions to net investments in foreign subsidiaries | 29 | 59 |
| Realised exchange gains/losses concerning additions to net investments in foreign subsidiaries (transferred to the income statement) | 5 | - |
| Adjustment, deferred exchange gains/losses, hedging | 21 | (53) |
| Exchange gains/losses, hedging (transferred to the hedged items) | (32) | 41 |
| **Tax on other comprehensive income** | **23** | **47** |

| **Explanation of the Group's effective tax rate relative to the Danish tax rate** | DKKm | % |
|---|---|---|
| **2011** | | |
| **Profit before tax** | **3,297** | |
| Calculated tax, 25% | 824 | 25.0 |
| **Tax effect of:** | | |
| Differences in the tax rates of foreign subsidiaries from the Danish tax rate of 25% | (84) | (2.5) |
| Non-deductible expenses/non-taxable income and other permanent differences | 103 | 3.1 |
| Research and development activities (tax credits) | (77) | (2.3) |
| Change in valuation of net tax assets | 228 | 6.9 |
| Prior-year tax adjustments etc., total effect on operations | 23 | 0.7 |
| **Effective tax for the year before market value adjustment of other investments** | **1,017** | **30.9** |
| Non-deductible losses/non-taxable gains on shares and other equity investments | (2) | (0.1) |
| **Effective tax for the year** | **1,015** | **30.8** |

# NOTES 7-9

## 7. TAX ON PROFIT FOR THE YEAR – CONTINUED

| Explanation of the Group's effective tax rate relative to the Danish tax rate | DKKm | % |
|---|---|---|
| **2010** | | |
| **Profit before tax** | **3,289** | |
| Calculated tax, 25% | 822 | 25.0 |
| **Tax effect of:** | | |
| Differences in the tax rates of foreign subsidiaries from the Danish tax rate of 25% | (50) | (1.5) |
| Non-deductible expenses/non-taxable income and other permanent differences | 72 | 2.2 |
| Research and development activities (tax credits) | (94) | (2.9) |
| Change in valuation of net tax assets | 46 | 1.4 |
| Prior-year tax adjustments etc., total effect on operations | 25 | 0.8 |
| **Effective tax for the year before market value adjustment of other investments** | **821** | **25.0** |
| Non-deductible losses/non-taxable gains on shares and other equity investments | 2 | 0.0 |
| **Effective tax for the year** | **823** | **25.0** |

## 8. DISTRIBUTION OF PROFIT

| Proposed distribution of profit for the year | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Proposed dividends for the year | 685 | 739 |
| Transferred to distributable reserves | 1,597 | 1,727 |
| **Total profit for the year** | **2,282** | **2,466** |

The Board of Directors proposes distribution of dividends for 2011 of 30% (30% in 2010) of the net profit for the year allocated to the shareholders of the parent company, equivalent to DKK 685 million inclusive of dividends on treasury shares (DKK 739 million in 2010) or DKK 3.49 per share (DKK 3.77 in 2010).

## 9. EARNINGS PER SHARE

| | 2011 | 2010 |
|---|---|---|
| **Profit for the year (DKKm)** | **2,282** | **2,466** |
| Average number of shares ('000 shares) | 196,127 | 196,117 |
| Average number of treasury shares ('000 shares) | (15) | - |
| **Average number of shares, excl. treasury shares ('000 shares)** | **196,112** | **196,117** |
| Average number of warrants, fully diluted ('000 warrants) | 6 | - |
| **Average number of shares, fully diluted ('000 shares)** | **196,118** | **196,117** |
| **Earnings per share (EPS) (DKK)[1]** | **11.63** | **12.57** |
| **Diluted earnings per share (DEPS) (DKK)[1]** | **11.63** | **12.57** |

1) Comparative figures have been restated using a factor 0.9999 for the effect of employees' exercise of warrants.

Warrants comprised by the warrant scheme established in 2007 for the Executive Management and Danish and foreign executives, a total of 844,500 warrants, were not in-the-money in 2011 and were therefore not exercised. The warrant scheme expired in 2011.

Warrants comprised by the warrant scheme established in 2008 for Danish and foreign key employees, a total of 171,154 warrants, vested at 6 May 2011. The warrants may be exercised within the given subscription period, but will presumably only be exercised if the price of the Lundbeck share exceeds the exercise price of DKK 115.00. The warrants have been in-the-money during 2011, and a total of 19,284 warrants have been exercised. At 31 December 2011, 151,870 warrants from the 2008 scheme remained outstanding.

Warrants covered by the warrant scheme established in 2009 for the Executive Management and Danish and foreign key employees, a total of 477,919 warrants, vest at 16 March 2012.

Warrants covered by the warrant schemes established in 2010 for the Executive Management and Danish and foreign key employees, a total of 711,809 warrants, vest at 16 March 2013.

Warrants covered by the warrant scheme established in 2011 for the Executive Management and Danish and foreign key employees, a total of 786,103 warrants, vest at 31 March 2014.

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

See note 3 *Staff costs* for additional information on incentive programmes.

# NOTES 10-11

## 10. OTHER COMPREHENSIVE INCOME

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Other comprehensive income recognised under currency translation reserve in equity is specified as follows:** | | |
| Currency translation, foreign subsidiaries | 31 | 295 |
| Currency translation concerning additions to net investments in foreign subsidiaries | 115 | 240 |
| Realised exchange gains/losses concerning additions to net investments in foreign subsidiaries (transferred to the income statement) | 20 | - |
| Tax on amounts recognised under currency translation reserve in equity | (34) | (59) |
| **Other comprehensive income recognised under currency translation reserve in equity** | **132** | **476** |
| | | |
| **Other comprehensive income recognised under currency hedging reserve in equity is specified as follows:** | | |
| Adjustment, deferred exchange gains/losses, hedging | 84 | (213) |
| Exchange gains/losses, hedging (transferred to the hedged item) | (127) | 163 |
| Exchange gains/losses, trading (transferred from hedging) | - | 1 |
| Tax on amounts recognised under currency hedging reserve in equity | 11 | 12 |
| **Other comprehensive income recognised under currency hedging reserve in equity** | **(32)** | **(37)** |
| | | |
| **Other comprehensive income recognised under retained earnings in equity is specified as follows:** | | |
| Accumulated exchange loss on divestment of associate | - | 2 |
| Fair value adjustment of available-for-sale financial assets | (6) | (4) |
| **Other comprehensive income recognised under retained earnings in equity** | **(6)** | **(2)** |

Items recognised under other comprehensive income will be recycled through profit or loss if certain events occur.

## 11. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

| Intangible assets | Goodwill DKKm | Patent rights DKKm | Product rights[1] DKKm | Other rigths[2] DKKm | Projects in progress[2] DKKm | Intangible assets DKKm |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Cost at 01.01. | 3,792 | 525 | 4,570 | 1,104 | 127 | 10,118 |
| Currency translation | 73 | - | 58 | (1) | - | 130 |
| Reclassification | - | - | 75 | 1 | (75) | 1 |
| Additions | - | - | 1,143 | 38 | 34 | 1,215 |
| Disposals | - | - | (264) | (2) | (22) | (288) |
| **Cost at 31.12.** | **3,865** | **525** | **5,582** | **1,140** | **64** | **11,176** |
| | | | | | | |
| Amortisation at 01.01. | - | 334 | 979 | 793 | - | 2,106 |
| Currency translation | - | - | 31 | - | - | 31 |
| Reclassification | - | - | - | 1 | - | 1 |
| Amortisation | - | 26 | 435 | 125 | - | 586 |
| Impairment | - | 95 | - | 47 | - | 142 |
| Disposals | - | - | (133) | (2) | - | (135) |
| **Amortisation at 31.12.** | **-** | **455** | **1,312** | **964** | **-** | **2,731** |
| **Carrying amount at 31.12.** | **3,865** | **70** | **4,270** | **176** | **64** | **8,445** |

# NOTE 11

## 11. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – CONTINUED

| Intangible assets | Goodwill DKKm | Patent rights DKKm | Product rights[1] DKKm | Other rigths[2] DKKm | Projects in progress[2] DKKm | Intangible assets DKKm |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Cost at 01.01. | 3,520 | 525 | 4,059 | 1,025 | 81 | 9,210 |
| Currency translation | 235 | - | 243 | 2 | (1) | 479 |
| Reclassification | 37 | - | (37) | 25 | 2 | 27 |
| Additions | - | - | 305 | 94 | 103 | 502 |
| Disposals | - | - | - | (42) | (58) | (100) |
| **Cost at 31.12.** | **3,792** | **525** | **4,570** | **1,104** | **127** | **10,118** |
| | | | | | | |
| Amortisation at 01.01. | - | 304 | 507 | 675 | - | 1,486 |
| Currency translation | - | - | 10 | - | - | 10 |
| Reclassification | - | - | - | 7 | - | 7 |
| Amortisation | - | 30 | 414 | 144 | - | 588 |
| Impairment | - | - | 48 | - | - | 48 |
| Disposals | - | - | - | (33) | - | (33) |
| **Amortisation at 31.12.** | **-** | **334** | **979** | **793** | **-** | **2,106** |
| **Carrying amount at 31.12.** | **3,792** | **191** | **3,591** | **311** | **127** | **8,012** |

1) Of product rights, DKK 2,179 million (DKK 1,028 million in 2010) relates to products not yet commercialised.
2) Other rights and projects in progress include items such as the IT system SAP. The amounts include directly attributable internal expenses.

| 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 | Property, plant and equipment DKKm |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Cost at 01.01. | 3,670 | 1,689 | 985 | 255 | 6,599 |
| Currency translation | 10 | 13 | (4) | 1 | 20 |
| Reclassification | 3 | (3) | (1) | - | (1) |
| Additions | 158 | 133 | 75 | 282 | 648 |
| Disposals | (164) | (42) | (33) | (229) | (468) |
| **Cost at 31.12.** | **3,677** | **1,790** | **1,022** | **309** | **6,798** |
| | | | | | |
| Depreciation at 01.01. | 1,484 | 1,315 | 754 | - | 3,553 |
| Currency translation | 18 | 13 | (1) | - | 30 |
| Reclassification | - | (1) | - | - | (1) |
| Depreciation | 149 | 89 | 78 | - | 316 |
| Impairment | 271 | 5 | 7 | - | 283 |
| Disposals | (132) | (36) | (29) | - | (197) |
| **Depreciation at 31.12.** | **1,790** | **1,385** | **809** | **-** | **3,984** |
| **Carrying amount at 31.12.** | **1,887** | **405** | **213** | **309** | **2,814** |

1) The carrying amount of pledged land and buildings at 31 December 2011 was DKK 1,636 million (DKK 1,769 million in 2010).

# NOTE 11

## 11. 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 | Property, plant and equipment DKKm |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Cost at 01.01. | 3,486 | 1,654 | 1,044 | 147 | 6,331 |
| Currency translation | 26 | 29 | 11 | 3 | 69 |
| Reclassification | (2) | - | (1) | (24) | (27) |
| Additions | 178 | 35 | 41 | 222 | 476 |
| Disposals | (18) | (29) | (110) | (93) | (250) |
| **Cost at 31.12.** | **3,670** | **1,689** | **985** | **255** | **6,599** |
| | | | | | |
| Depreciation at 01.01. | 1,333 | 1,194 | 755 | - | 3,282 |
| Currency translation | 9 | 24 | 8 | - | 41 |
| Reclassification | (1) | (6) | - | - | (7) |
| Depreciation | 153 | 121 | 93 | - | 367 |
| Disposals | (10) | (18) | (102) | - | (130) |
| **Depreciation at 31.12.** | **1,484** | **1,315** | **754** | **-** | **3,553** |
| **Carrying amount at 31.12.** | **2,186** | **374** | **231** | **255** | **3,046** |

1) The carrying amount of pledged land and buildings at 31 December 2011 was DKK 1,636 million (DKK 1,769 million in 2010).

**Sale of product rights**
In 2011, Lundbeck sold the product rights to Nembutal®, Cogentin® and Diuril®. No gain from the sale of these product rights was recognised in 2011 because any gain is subject to developments in revenue from these products at the buyer, which Lundbeck does not control. The fair value of the deferred gain is based on management's estimate. Recognition of any gain will commence at the time when revenue from the three products exceeds the carrying amount of the product rights at the time of disposal.

**Goodwill impairment test**
The carrying amount of goodwill amounted to DKK 3,865 million (DKK 3,792 million in 2010). Goodwill related to Lundbeck Inc., USA, amounted to DKK 3,010 million in 2011 (DKK 2,941 million in 2010). The annual impairment tests are submitted to the Audit Committee for subsequent approval by the Board of Directors. Based on the impairment tests performed in 2011, it was concluded that there is no need for writing down the goodwill.

**CGU definition**
As a result of Lundbeck's CGU definition, goodwill is tested at an aggregated group level, with the exception, however, of Lundbeck Inc., which in respect of some of the parameters used in the group CGU definition is not yet fully integrated and therefore was considered an independent CGU in 2011. During 2013, Lundbeck Inc. is expected to be fully integrated from a CGU viewpoint.

**Methodology**
In the impairment test, the discounted expected future cash flows (value in use) for each CGU are compared to the carrying amounts of goodwill and other net assets. The future cash flows are based on Lundbeck's specific business plans for the next 6-8 years with due consideration to patent expiry. The key parameters in the calculation of the value in use are revenue, earnings, working capital, discount factor and the preconditions for the terminal period. Negative growth is projected in the terminal period due to patent expiry. The calculation of the value in use for the Group, excluding Lundbeck Inc., is based on a discount rate of 9.7% (9.5% in 2010). For Lundbeck Inc. a discount rate of 11.8% (11.6% in 2010) was used. The discount rate is before tax, and the result of [WACC/(1 – tax rate)] and the applied cash flows are also pre-tax figures.

**Impairment of other intangible assets**
In 2011, Lundbeck wrote down patent rights and other rights by a total of DKK 142 million. The impairment loss is recognised in the income statement under cost of sales in the amount of DKK 31 million, under administrative expenses in the amount of DKK 5 million and under research and development costs in the amount of DKK 106 million. The recoverable amount was calculated on the basis of management's re-assessed estimate of the value in use of the assets. In 2010, impairment of product rights amounted to DKK 48 million, which was recognised in the income statement under sales and distribution costs. The recoverable amount was calculated on the basis of management's re-assessed estimate of the value in use of the assets.

**Impairment of property, plant and equipment**
In 2011, Lundbeck wrote down property, plant and equipment by a total amount of DKK 283 million. The impairment loss relates primarily to land and buildings in the US. The impairment loss is recognised under cost of sales in the amount of DKK 21 million, under administrative expenses in the amount of DKK 4 million and under research and development costs in the amount of DKK 258 million. The recoverable amount was calculated on the basis of management's re-assessed estimate of the value in use of the assets.

# NOTES 12-13

## 12. OTHER INVESTMENTS AND OTHER RECEIVABLES

| | Available-for-sale financial assets DKKm | Other receivables[1] DKKm |
|---|---|---|
| **2011** | | |
| Carrying amount at 01.01. | 21 | 57 |
| Additions | 75 | 7 |
| Disposals | (11) | (13) |
| Value adjustment | (2) | 1 |
| **Carrying amount at 31.12.** | **83** | **52** |
| | | |
| **2010** | | |
| Carrying amount at 01.01. | 26 | 45 |
| Currency translation | - | 2 |
| Additions | - | 20 |
| Disposals | (4) | (9) |
| Value adjustment | (1) | (1) |
| **Carrying amount at 31.12.** | **21** | **57** |

1) At 31 December 2011, other receivables are not believed to involve material credit risk.

| **Reserve for fair value adjustment of available-for-sale financial assets recognised under other comprehensive income** | **2011** DKKm | **2010** DKKm |
|---|---|---|
| Fair value adjustment at 01.01. | 2 | 6 |
| Fair value adjustment | (2) | (1) |
| Realised fair value adjustment on disposal | (7) | (3) |
| Prolonged impairment recognised in the income statement | 3 | - |
| **Fair value adjustment at 31.12.** | **(4)** | **2** |

## 13. DEFERRED TAX

**Temporary differences between assets and liabilities as stated in the financial statements and as stated in the tax base**

| **2011** | **Balance at 01.01.** DKKm | **Currency translation** DKKm | **Adjustment of deferred tax at beginning of year** DKKm | **Movement during the year** DKKm | **Balance at 31.12.** DKKm |
|---|---|---|---|---|---|
| Intangible assets | 2,849 | 35 | 89 | 255 | 3,228 |
| Property, plant and equipment | 827 | - | - | (423) | 404 |
| Inventories | (120) | 13 | 31 | (141) | (217) |
| Prepayments from Forest | (517) | - | - | 283 | (234) |
| Other items | 104 | (10) | (119) | (2) | (27) |
| Provisions in subsidiaries | (52) | 2 | (1) | 35 | (16) |
| Tax loss carry-forwards etc. | (693) | (8) | 76 | 211 | (414) |
| **Total temporary differences** | **2,398** | **32** | **76** | **218** | **2,724** |
| | | | | | |
| Deferred (tax assets)/tax liabilities | 649 | (17) | 12 | 106 | 750 |
| Research and development activities (tax credits) | (186) | (4) | - | (1) | (191) |
| **Deferred (tax assets)/tax liabilities** | **463** | **(21)** | **12** | **105** | **559** |

# NOTE 13

## 13. DEFERRED TAX – CONTINUED

| 2010 | Balance at 01.01. DKKm | Currency translation DKKm | Adjustment of deferred tax at beginning of year DKKm | Movement during the year DKKm | Balance at 31.12. DKKm |
|---|---|---|---|---|---|
| Intangible assets | 2,778 | 143 | (23) | (49) | 2,849 |
| Property, plant and equipment | 948 | (2) | 13 | (132) | 827 |
| Inventories | (78) | (16) | (3) | (23) | (120) |
| Prepayments from Forest | (693) | - | - | 176 | (517) |
| Other items | (48) | (21) | (1) | 174 | 104 |
| Provisions in subsidiaries | (31) | 3 | - | (24) | (52) |
| Tax loss carry-forwards etc. | (328) | (22) | (37) | (306) | (693) |
| **Total temporary differences** | **2,548** | **85** | **(51)** | **(184)** | **2,398** |
| | | | | | |
| Deferred (tax assets)/tax liabilities | 764 | 32 | (27) | (120) | 649 |
| Research and development activities (tax credits) | (108) | (9) | 3 | (72) | (186) |
| **Deferred (tax assets)/tax liabilities** | **656** | **23** | **(24)** | **(192)** | **463** |

| Deferred (tax assets)/tax liabilities | 2011 Deferred tax assets DKKm | 2011 Deferred tax liabilities DKKm | 2011 Net DKKm | 2010 Deferred tax assets DKKm | 2010 Deferred tax liabilities DKKm | 2010 Net DKKm |
|---|---|---|---|---|---|---|
| Intangible assets | (75) | 1,082 | 1,007 | (47) | 945 | 898 |
| Property, plant and equipment | (97) | 168 | 71 | (7) | 223 | 216 |
| Inventories | (135) | 54 | (81) | (116) | 63 | (53) |
| Prepayments from Forest | (59) | - | (59) | (129) | - | (129) |
| Other items | (195) | 170 | (25) | (165) | 161 | (4) |
| Provisions in subsidiaries | (15) | 13 | (2) | (15) | 2 | (13) |
| Tax loss carry-forwards etc. | (161) | - | (161) | (266) | - | (266) |
| Research and development activities (tax credits) | (191) | - | (191) | (186) | - | (186) |
| **Deferred (tax assets)/tax liabilities** | **(928)** | **1,487** | **559** | **(931)** | **1,394** | **463** |
| Netting within legal tax entities and jurisdictions | 591 | (591) | - | 818 | (818) | - |
| **Total net deferred (tax assets)/tax liabilities** | **(337)** | **896** | **559** | **(113)** | **576** | **463** |

Of the recognised deferred tax assets, DKK 352 million (DKK 452 million in 2010) related to tax losses etc. and research and development activities (tax credits) to be carried forward. Utilisation of these is based on a future positive income that exceeds realisation of the deferred tax liabilities. The recognition of tax losses is based on estimates of the expected earnings and taxable income in the loss-making entities, supported by reports by external analysts, when available.

| Unrecognised deferred tax assets | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Unrecognised deferred tax assets at 01.01. | 94 | 50 |
| Currency translation | 1 | 4 |
| Prior-year adjustments | 1 | 7 |
| Additions | 228 | 47 |
| Utilised | (34) | (14) |
| **Unrecognised deferred tax assets at 31.12.** | **290** | **94** |

Unrecognised deferred tax assets primarily related to interest and research and development activities (tax credits). Of the total unrecognised deferred tax assets of DKK 290 million (DKK 94 million in 2010), DKK 11 million (DKK 19 million in 2010) related to research and development activities (tax credits) expiring within five years.

# NOTES 14-15

## 14. INVENTORIES

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Raw materials and consumables | 138 | 138 |
| Work in progress | 395 | 440 |
| Finished goods and goods for resale | 1,101 | 913 |
| **Total** | **1,634** | **1,491** |
| | | |
| **Indirect costs of production** | **299** | **339** |
| **Impairment loss for the year** | **12** | **17** |
| **Inventories calculated at net realisable value** | **2** | **4** |

The total cost of goods sold included in cost of sales for 2011 amounted to DKK 2,028 million (DKK 1,904 million in 2010).

## 15. TRADE RECEIVABLES AND OTHER RECEIVABLES

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Trade receivables** | | |
| Receivables | 2,628 | 2,123 |
| Writedowns | (60) | (18) |
| **Total** | **2,568** | **2,105** |
| | | |
| **Due dates of trade receivables not written down** | | |
| Not due | 2,124 | 1,798 |
| Overdue by up to 3 months | 344 | 174 |
| Overdue by more than 3 months and up to 6 months | 46 | 62 |
| Overdue by more than 6 months and up to 12 months | 52 | 44 |
| Overdue by more than 12 months | 2 | 27 |
| **Total** | **2,568** | **2,105** |
| | | |
| **Development in writedowns of trade receivables** | | |
| Writedowns at 01.01. | 18 | 13 |
| Actual writedowns | (6) | (2) |
| Reversed, unrealised writedowns | (1) | (1) |
| Change in writedowns | 49 | 8 |
| **Writedowns at 31.12.** | **60** | **18** |

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Specification of other receivables by due date** | | |
| Not due | 389 | 358 |
| Overdue by up to 3 months | 6 | 25 |
| Overdue by more than 3 months and up to 6 months | 4 | 5 |
| Overdue by more than 6 months and up to 12 months | 8 | - |
| Overdue by more than 12 months | 1 | 1 |
| **Total** | **408** | **389** |

As no losses are expected on other receivables, no writedowns have been made.

**Credit risks**

Lundbeck's products are sold primarily to distributors of pharmaceuticals and hospitals. Historically, the losses sustained have been insignificant. This was also the case in 2011. However, the change in writedowns in 2011 reflects a potentially higher loss in 2012.

The Group has no particular customer concentration and no significant reliance on specific customers.

Lundbeck has defined internal procedures to be followed in connection with the establishment of new customer relationships and changes to existing relationships. The purpose of these procedures is to ensure that the risk of losses is reduced to the extent possible.

At 31 December 2011, receivables from Forest Laboratories, Inc. accounted for more than 5% of total trade receivables. This was also the case at 31 December 2010.

At 31 December 2011, receivables from Takeda Pharmaceutical Company Limited and Teva Pharmaceutical Industries Ltd., respectively, accounted for more than 5% of total other receivables. This was also the case at 31 December 2010.

**Market risks**

The pharmaceutical market is characterised by the aim of the authorities to reduce or cap the rising healthcare costs. Market changes such as price reductions may have a considerable impact on the earnings potential of pharmaceuticals.

In 2011, Lundbeck experienced significant price reductions in several countries in Europe, where higher debts and rising unemployment have compelled the governments to identify savings in the public budgets. These savings have resulted, among other things, in a number of healthcare reforms triggering comprehensive price reductions in a number of countries. Lundbeck expects that the uncertainty about public debts and developments in unemployment and the resulting focus on public budgets will continue into 2012 and 2013.

Lundbeck is monitoring developments in the European economies and also developments in trade receivables in order to reduce the risk of losses to the best possible extent.

# NOTES 16-17

## 16. INCOME TAX

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Income tax payable/(income tax receivable) at 01.01. | (115) | (18) |
| Currency translation | 8 | (1) |
| Prior-year adjustments | 11 | 49 |
| Tax payable on profit for the year | 933 | 1,084 |
| Tax on other comprehensive income | (23) | (47) |
| Tax paid for the year | (824) | (1,131) |
| Tax paid/received in respect of prior years | 80 | (51) |
| **Income tax payable/(income tax receivable) at 31.12.** | **70** | **(115)** |
| | | |
| **Income tax is specified as follows:** | | |
| Income tax receivable | (66) | (190) |
| Income tax payable | 136 | 75 |
| **Income tax payable/(income tax receivable)** | **70** | **(115)** |

## 17. CASH RESOURCES

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Fixed-term deposits | 1,615 | 1,491 |
| Other cash resources | 852 | 803 |
| **Cash at 31.12.** | **2,467** | **2,294** |
| Securities with a maturity of less than 3 months[1] | - | - |
| Securities with a maturity of more than 3 months[1] | 1,476 | 54 |
| **Cash and securities at 31.12.** | **3,943** | **2,348** |
| Unutilised committed credit facilities at 31.12. | 1,000 | 1,000 |
| Unutilised uncommitted credit facilities at 31.12. | 283 | 339 |
| **Cash resources at 31.12.** | **5,226** | **3,687** |

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 losses, internal limits have been defined for the credit exposure accepted towards the banks with which Lundbeck collaborates. The credit lines are presented to the Board of Directors for approval pursuant to the Group's treasury policy.

The treasury policy deals with financial resources, foreign currency exposure, securities portfolio and loan portfolio and is presented once every year to the Audit Committee 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 Lundbeck's treasury policy, Lundbeck must always be capable of raising 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 banks.

The securities portfolio consists primarily of Danish government and mortgage bonds with a limited credit risk and of a money market fund consisting of Danish government and mortgage bonds. In addition, via Lundbeck Inc. in the US, Lundbeck has a small portfolio of Auction Rate Securities, for which the credit risk is also considered minimal, as the underlying loans on these securities are guaranteed by the US government.

Lundbeck operates in an industry characterised by frequent shifts in the market situation that may involve a need for in-licensing and acquisition activities.

Despite a strong cash flow from ordinary activities, Lundbeck intends to maintain financial resources in the form of cash and committed credit facilities to allow for flexible operations in case of rapid shifts in the market situation. At 31 December 2011, Lundbeck had committed syndicated credit facilities for DKK 1.0 billion with a term to maturity of three years from 4 March 2010. In addition, Lundbeck had a number of uncommitted credit facilities for use in its day-to-day operations. At 31 December 2011, these amounted to DKK 0.4 billion, of which DKK 0.3 billion was unutilised. At 31 December 2010, Lundbeck had committed syndicated credit facilities for DKK 1.0 billion. In addition, Lundbeck had a large number of uncommitted credit facilities for use in its day-to-day operations. At 31 December 2010, these amounted to DKK 0.4 billion, of which DKK 0.3 billion was unutilised.

Furthermore, Lundbeck manages its capital structure based on a wish to carry an investment-grade rating. A number of financial institutions indicate that Lundbeck's calculated implied rating would be of an investment grade nature.

Liquidity exceeding the requirement for business development and general business purposes is primarily distributed as dividends. Lundbeck pursues a policy of distributing between 25% and 35% of the profit for the year as dividends.

Other than small operational changes, no changes were made to Lundbeck's treasury policy compared with 2010.

# NOTES 18-19

## 18. SHARE CAPITAL

The share capital of DKK 980 million at 31 December 2011 is divided into 196,135,918 shares of a nominal value of DKK 5 each.

| | 2011 DKKm | 2010 DKKm | 2009 DKKm | 2008 DKKm | 2007 DKKm |
|---|---|---|---|---|---|
| Share capital at 01.01. | 980 | 980 | 984 | 1,036 | 1,061 |
| Exercise of warrants | - | - | - | - | 5 |
| Cancellation of treasury shares | - | - | (4) | (52) | (30) |
| **Share capital at 31.12.** | **980** | **980** | **980** | **984** | **1,036** |

| Shares | Issued shares Number | Portfolio of treasury shares Number | Proportion of treasury shares % |
|---|---|---|---|
| **2011** | | | |
| At 01.01. | 196,116,634 | - | 0.00 |
| Share buyback | - | 71,025 | |
| Shares used for financing of incentive programmes | - | (69,505) | |
| Increase of share capital | 19,284 | - | |
| **At 31.12.** | **196,135,918** | **1,520** | **0.00** |

**2010**

At 196,116,634, the number of shares was unchanged during 2010.

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 authorised 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 OMX Copenhagen.

In 2011, the parent company acquired treasury shares at a value of DKK 9 million, corresponding to 71,025 shares. The shares were acquired to finance Lundbeck's long-term incentive programmes. Of the 71,025 shares, 69,505 shares were used to finance the incentive programmes established in 2008. The remaining 1,520 shares are expected to be used for partial financing of the incentive programme established in 2009. The parent company did not hold any treasury shares in 2010.

In 2011, employees exercised warrants totalling DKK 2 million, corresponding to 19,284 shares at an exercise price of DKK 115.00. The share premium in this connection was DKK 2 million. The share premium totalling DKK 226 million relates to the exercise of warrants in 2011 and in 2007 and earlier, see note 3 *Staff costs*. At 31 December 2010, the share premium amounted to DKK 224 million.

## 19. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

The majority of the employees of the Group are covered by pension plans paid for by the companies of the Group. The nature of the plans varies according to regulatory requirements, tax rules and economic conditions in the countries in which the employees are employed. A summary of the most important plans is given below.

**Defined contribution plans**

For defined contribution plans, the employer undertakes to pay a defined contribution (e.g. a fixed amount or a fixed percentage of the pay). Under a defined contribution plan, the employees will usually bear the risk related to future developments in interest and inflation rates, etc.

The major defined contribution plans cover employees in Australia, Belgium, Canada, Denmark, Finland, Ireland, Sweden, the UK and the US. The cost of defined contribution plans, representing contributions to the plans, totalled DKK 181 million in 2011 (DKK 174 million in 2010).

**Defined benefit plans**

For defined benefit plans, the employer undertakes to pay a defined benefit (e.g. a retirement pension at a fixed amount or a fixed percentage of the employee's final salary). Under a defined benefit plan, the company usually bears the risk relating to future developments in interest and inflation rates, etc.

For defined benefit plans, the present value of future benefits, which the company is liable to pay under the plan, is computed using actuarial principles. The computation of present value is based on assumptions about discount rates, changes in pay rates and pensions, investment yield, staff resignation rates, mortality, disability and other factors. Present value is computed exclusively for the benefits to which the employees have earned entitlement through their employment with the company. Actuarial gains and losses are recognised in the income statement as they are calculated.

# NOTE 19

## 19. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

| Pension obligations and similar obligations | 2011 DKKm | 2010 DKKm | 2009 DKKm | 2008 DKKm | 2007 DKKm |
|---|---|---|---|---|---|
| Present value of funded pension obligations | 284 | 257 | 212 | 165 | 191 |
| Fair value of plan assets | (224) | (207) | (171) | (135) | (156) |
| **Funded pension obligations, net** | **60** | **50** | **41** | **30** | **35** |
| Present value of unfunded pension obligations | 114 | 119 | 101 | 83 | 96 |
| **Pension obligations at 31.12.** | **174** | **169** | **142** | **113** | **131** |
| Other pension-like obligations | 64 | 55 | 61 | 67 | 58 |
| **Pension obligations and similar obligations at 31.12.** | **238** | **224** | **203** | **180** | **189** |
| | | | | | |
| **Pension obligations and similar obligations break down as follows:** | | | | | |
| Non-current obligations | 221 | 212 | | | |
| Current obligations | 17 | 12 | | | |
| **Pension obligations and similar obligations at 31.12.** | **238** | **224** | | | |
| | | | | | |
| Experience adjustments to pension obligations | - | - | (27) | 44 | 33 |
| Experience adjustments to plan assets | (5) | 1 | 10 | (27) | (13) |

| Defined benefit plans | UK | Germany | Norway | France | USA[1] | Switzerland | Mexico | Total |
|---|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | | |
| Present value of funded pension obligations (DKKm) | 177 | - | 29 | - | 9 | 63 | 6 | 284 |
| Fair value of plan assets (DKKm) | (146) | - | (16) | - | - | (57) | (5) | (224) |
| **Funded pension obligations, net (DKKm)** | **31** | **-** | **13** | **-** | **9** | **6** | **1** | **60** |
| Present value of unfunded pension obligations (DKKm) | - | 91 | - | 23 | - | - | - | 114 |
| **Pension obligations at 31.12. (DKKm)** | **31** | **91** | **13** | **23** | **9** | **6** | **1** | **174** |
| | | | | | | | | |
| **Net expense recognised in the income statement (DKKm)** | **14** | **(2)** | **(1)** | **-** | **2** | **5** | **1** | **19** |
| | | | | | | | | |
| Discount rate | 5.20% | 5.10% | 3.50% | 4.20% | - | 2.70% | 8.00% | |
| Pay rate increase | 4.00% | 2.40% | 4.50% | 2.00% | - | 2.00% | 5.50% | |
| Pension increase | 2.90% | 2.20% | 1.30% | - | - | - | - | |
| Age-weighted staff resignation rate | - | 0%-8% | - | - | - | - | - | |
| Expected return on plan assets | 5.30% | - | 5.70% | - | - | 2.50% | 8.00% | |

# NOTE 19

## 19. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

| Defined benefit plans | UK | Germany | Norway | France | USA[1] | Switzerland | Mexico | Total |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Present value of funded pension obligations (DKKm) | 160 | - | 31 | - | 6 | 54 | 6 | 257 |
| Fair value of plan assets (DKKm) | (136) | - | (17) | - | - | (50) | (4) | (207) |
| **Funded pension obligations, net (DKKm)** | **24** | **-** | **14** | **-** | **6** | **4** | **2** | **50** |
| Present value of unfunded pension obligations (DKKm) | - | 95 | 1 | 23 | - | - | - | 119 |
| **Pension obligations at 31.12. (DKKm)** | **24** | **95** | **15** | **23** | **6** | **4** | **2** | **169** |
| | | | | | | | | |
| **Net expense recognised in the income statement (DKKm)** | **-** | **18** | **9** | **4** | **2** | **6** | **2** | **41** |
| | | | | | | | | |
| Discount rate | 5.50% | 4.60% | 3.50% | 4.40% | - | 2.70% | 8.50% | |
| Pay rate increase | 4.40% | 2.50% | 4.50% | 2.00% | - | 2.00% | 5.50% | |
| Pension increase | 3.30% | 2.00% | 1.30% | - | - | - | - | |
| Age-weighted staff resignation rate | - | 0%-8% | - | - | - | - | - | |
| Expected return on plan assets | 5.70% | - | 5.70% | - | - | 2.50% | 8.50% | |

1) The pension plan in the US is funded through an insurance/investment asset, which is recognised in the consolidated balance sheet. The asset represented a value of DKK 13 million in 2011 (DKK 12 million in 2010).

| | 2011<br>% distribution | 2010<br>% distribution |
|---|---|---|
| **The fair value of the plan assets breaks down as follows:** | | |
| Shares | 10% | 11% |
| Bonds | 32% | 30% |
| Property | 3% | 3% |
| Insurance contracts | 53% | 55% |
| Other assets | 2% | 1% |
| **Total** | **100%** | **100%** |

The expected return is calculated on the basis of investment reports prepared by an international, recognised pension and insurance company.

# NOTES 19-20

## 19. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS – CONTINUED

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Change in present value of funded pension obligations** | | |
| Present value of funded pension obligations at 01.01. | 257 | 212 |
| Currency translation | 6 | 18 |
| Pension expenses | 9 | 8 |
| Interest expenses relating to the obligations | 12 | 12 |
| Actuarial (gains)/losses | 6 | 7 |
| Disbursements | (5) | (6) |
| Employee contributions | 2 | - |
| Settlement | (3) | - |
| New plan | - | 6 |
| **Present value of funded pension obligations at 31.12.** | **284** | **257** |
| | | |
| **Change in fair value of plan assets** | | |
| Fair value of plan assets at 01.01. | 207 | 171 |
| Currency translation | 5 | 15 |
| Expected return on plan assets | 10 | 9 |
| Actuarial gains/(losses) | (4) | 1 |
| Contributions | 12 | 11 |
| Disbursements | (5) | (6) |
| Employee contributions | 2 | 2 |
| Settlement | (3) | - |
| New plan | - | 4 |
| **Fair value of plan assets at 31.12.** | **224** | **207** |
| | | |
| **Change in present value of unfunded pension obligations** | | |
| Present value of unfunded pension obligations at 01.01. | 119 | 101 |
| Pension expenses | 5 | 5 |
| Interest expenses relating to the obligations | 5 | 6 |
| Actuarial (gains)/losses | (12) | 11 |
| Disbursements | (3) | (4) |
| **Present value of unfunded pension obligations at 31.12.** | **114** | **119** |
| | | |
| **Change in obligations for defined benefit plans** | | |
| Pension obligations at 01.01. | 169 | 142 |
| Currency translation | 1 | 3 |
| Recognised as expense (change recognised in the income statement) | 19 | 41 |
| Contributions | (12) | (11) |
| Disbursements | (3) | (4) |
| Employee contributions | - | (2) |
| **Pension obligations at 31.12.** | **174** | **169** |

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Specification of change recognised in the income statement** | | |
| Pension expenses | 14 | 13 |
| Interest expenses relating to the obligations | 17 | 18 |
| Expected return on plan assets | (10) | (9) |
| Actuarial (gains)/losses | (2) | 17 |
| New plan | - | 2 |
| **Total expenses recognised** | **19** | **41** |
| | | |
| **Realised return on plan assets** | **7** | **11** |

The expected contribution for 2012 for the defined benefit plans is DKK 16 million (DKK 15 million for 2011).

### Other pension-like obligations

An obligation of DKK 64 million (DKK 55 million in 2010) is recognised in the Group to cover other pension-like obligations, including primarily termination benefits in a number of subsidiaries. The benefit payments are conditional upon specified requirements being met. The amount of pension-like obligations increased by DKK 9 million in 2011 (declined by DKK 6 million in 2010).

## 20. OTHER PROVISIONS

| 2011 | Returns DKKm | Other provisions DKKm | Total DKKm |
|---|---|---|---|
| Provisions at 01.01. | 100 | 246 | 346 |
| Currency translation | 2 | 2 | 4 |
| Provisions charged | 31 | 20 | 51 |
| Provisions used | (35) | (99) | (134) |
| Unused provisions reversed | (21) | (3) | (24) |
| **Provisions at 31.12.** | **77** | **166** | **243** |
| | | | |
| **Provisions break down as follows:** | | | |
| Non-current provisions | 19 | 19 | 38 |
| Current provisions | 58 | 147 | 205 |
| **Provisions at 31.12.** | **77** | **166** | **243** |

# NOTES 20-21

## 20. OTHER PROVISIONS – CONTINUED

| 2010 | Returns DKKm | Other provisions DKKm | Total DKKm |
|---|---|---|---|
| Provisions at 01.01. | 97 | 218 | 315 |
| Currency translation | 8 | 10 | 18 |
| Provisions charged | 74 | 30 | 104 |
| Provisions used | (77) | (2) | (79) |
| Unused provisions reversed | (2) | (10) | (12) |
| **Provisions at 31.12.** | **100** | **246** | **346** |
| | | | |
| **Provisions break down as follows:** | | | |
| Non-current provisions | 41 | 89 | 130 |
| Current provisions | 59 | 157 | 216 |
| **Provisions at 31.12.** | **100** | **246** | **346** |

The provisions primarily cover expenses for disputes, the defence of the Group's intellectual property rights and returns.

Of the total provisions at 31 December 2011, DKK 1 million (DKK 1 million in 2010) related to share price-based incentive programmes (debt schemes). Further details about the incentive programmes are provided in note 3 *Staff costs*.

## 21. MORTGAGE AND BANK DEBT

### Mortgage debt

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Mortgage debt by maturity** | | |
| More than 5 years from the balance sheet date | 1,860 | 1,858 |
| **Mortgage debt at 31.12.** | **1,860** | **1,858** |
| | | |
| **Specification of mortgage debt** | | |
| Non-current liabilities | 1,860 | 1,858 |
| Current liabilities | - | - |
| **Mortgage debt at 31.12.** | **1,860** | **1,858** |

| | Currency | Expiry | Fixed/ floating | Weighted average effective interest rate | Amortised cost DKKm | Nominal value DKKm | Fair value DKKm |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| Mortgage debt, bond loan | DKK | 2035 | Floating | 2.39% | 1,411 | 1,540 | 1,581 |
| Mortgage debt, bond loan | DKK | 2037 | Floating | 1.93% | 437 | 440 | 420 |
| Mortgage debt, bond loan | DKK | 2034 | Floating | 1.49% | 10 | 10 | 10 |
| Mortgage debt, bond loan | DKK | 2034 | Floating | 1.49% | 2 | 2 | 2 |
| **Total** | | | | | **1,860** | **1,992** | **2,013** |
| | | | | | | | |
| **2010** | | | | | | | |
| Mortgage debt, bond loan | DKK | 2035 | Floating | 3.36% | 1,410 | 1,567 | 1,528 |
| Mortgage debt, bond loan | DKK | 2037 | Floating | 2.02% | 436 | 440 | 422 |
| Mortgage debt, bond loan | DKK | 2034 | Floating | 1.64% | 10 | 10 | 10 |
| Mortgage debt, bond loan | DKK | 2034 | Floating | 1.64% | 2 | 2 | 2 |
| **Total** | | | | | **1,858** | **2,019** | **1,962** |

Amortised cost is calculated as the proceeds received less instalments paid plus or minus amortisation of capital losses. Fair value is calculated as the market value at 31 December.

### Bank debt

There was no bank debt at 31 December 2011 and 31 December 2010.

# NOTES 22-24

## 22. ADJUSTMENTS

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Amortisation, depreciation and impairment | 1,235 | 1,036 |
| Incentive programmes | 24 | 18 |
| Change in pension obligations | 14 | 21 |
| Change in other provisions | (103) | 31 |
| Other adjustments | 22 | (26) |
| **Adjustments** | **1,192** | **1,080** |

## 23. WORKING CAPITAL CHANGES

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Change in inventories | (133) | 48 |
| Change in receivables | (453) | (150) |
| Change in short-term debt | 404 | 190 |
| **Working capital changes** | **(182)** | **88** |

## 24. FINANCIAL INSTRUMENTS

**Foreign currency risks**

Foreign currency management is handled centrally by the parent company. Currency management focuses on risk minimisation and is carried out in conformity with the foreign currency policy approved by the Board of Directors.

The parent company hedges a significant part of the Group's anticipated cash flows for a period of up to 24 months, depending on the currency in question.

The hedging consists partly of a fixed minimum hedge and partly of a variable part. The fixed part is hedged by forward exchange contracts and in some cases currency options classified as hedging instruments and meeting the accounting criteria for hedging future cash flows. Changes in the fair value of these contracts are recognised in the statement of comprehensive income under other comprehensive income as they arise and – on invoicing of the hedged cash flow – transferred from other comprehensive income for inclusion in the same item as the hedged cash flow.

Hedging contracts that do not meet the hedge criteria are classified as trading contracts, and changes in the fair value are recognised as financial items as they arise.

**Net forward exchange contracts and currency options outstanding**

**Hedging part**

| Forward exchange contracts | Contract value according to hedge accounting DKKm | Exchange gain/loss recognised under other comprehensive income DKKm | Exchange gain/loss recognised in the income statement/ balance sheet DKKm | Average hedge prices of existing forward exchange contracts DKK | Maturity period |
|---|---|---|---|---|---|
| **2011** | | | | | |
| AUD | 5 | - | - | 539.84 | May 2012 |
| CAD | 552 | (19) | 5 | 536.25 | Dec. 2012 |
| CHF | 183 | 1 | (12) | 610.84 | Dec. 2012 |
| CZK | 22 | 1 | - | 30.38 | Sep. 2012 |
| GBP | 416 | (10) | (1) | 857.69 | Dec. 2012 |
| HUF | 4 | - | - | 2.48 | Mar. 2012 |
| JPY | 121 | (5) | (19) | 7.08 | Dec. 2012 |
| MXN | 108 | 2 | 3 | 41.39 | Dec. 2012 |
| NOK | 28 | - | - | 94.98 | Nov. 2012 |
| PLN | 19 | - | - | 173.28 | Oct. 2012 |
| RUB | 49 | - | - | 17.41 | Oct. 2012 |
| SEK | 50 | (1) | (1) | 81.22 | Oct. 2012 |
| SGD | 4 | - | (1) | 426.56 | Aug. 2012 |
| TRY | 148 | (2) | 20 | 290.70 | Sep. 2012 |
| USD | 457 | (15) | 113 | 550.15 | Dec. 2012 |
| ZAR | 48 | - | 1 | 69.35 | Oct. 2012 |
| **Forward exchange contracts** | **2,214** | **(48)** | **108** | | |
| **2010** | | | | | |
| AUD | 15 | - | (13) | 429.11 | May 2011 |
| CAD | 367 | (4) | (38) | 548.19 | Dec. 2011 |
| CHF | 131 | (10) | (12) | 545.31 | Dec. 2011 |
| CZK | 21 | - | (1) | 29.74 | Oct. 2011 |
| EUR | 411 | - | 5 | 746.46 | Apr. 2011 |
| GBP | 103 | - | - | 861.61 | Nov. 2011 |
| HUF | 8 | - | - | 2.66 | Aug. 2011 |
| ILS | 3 | - | (2) | 145.87 | Feb. 2011 |
| JPY | 20 | - | 6 | 6.72 | Aug. 2011 |
| MXN | 115 | (3) | 2 | 44.10 | Dec. 2011 |
| NOK | - | - | (2) | - | - |
| PLN | 22 | - | (2) | 182.95 | Aug. 2011 |
| RUB | 40 | - | 1 | 18.24 | Nov. 2011 |
| SEK | 36 | (1) | 1 | 79.51 | Dec. 2011 |
| SGD | 21 | - | 6 | 418.53 | May 2011 |
| TRY | 161 | 3 | (28) | 357.30 | Sep. 2011 |
| USD | 1,587 | 14 | (76) | 566.72 | Dec. 2011 |
| ZAR | 52 | (4) | (9) | 73.71 | Nov. 2011 |
| **Forward exchange contracts** | **3,113** | **(5)** | **(162)** | | |

# NOTE 24

## 24. FINANCIAL INSTRUMENTS – CONTINUED

### Hedging part – continued

| Currency options (zero-cost options) | Contract value according to hedge accounting DKKm | Exchange gain/loss recognised under other comprehensive income DKKm | Exchange gain/loss recognised in the income statement DKKm | Average exercise prices[1] DKK | Maturity period |
|---|---|---|---|---|---|
| **2011** | | | | | |
| JPY/DKK (JPY put bought) | - | - | 19 | - | - |
| JPY/DKK (JPY call sold) | - | - | - | - | - |
| **Currency options** | | **-** | **19** | | |
| **2010** | | | | | |
| JPY/DKK (JPY put bought) | 177 | - | - | 6.45 | Jan. 2011 |
| JPY/DKK (JPY call sold) | 180 | - | (1) | 6.53 | Jan. 2011 |
| **Currency options** | | **-** | **(1)** | | |

1) In 2010, the average exercise price for the portfolio of call options sold had an average kick-in price of DKK 7.18.

At 31 December 2010, the currency options concerned hedging of a milestone payment in JPY in 2011.

At 31 December 2011, the exchange difference between the contract value and the market value of the concluded forward exchange contracts represented a loss of DKK 59 million (DKK 21 million in 2010), of which DKK 11 million was recognised in the income statement (DKK 16 million in 2010).

Lundbeck did not experience any ineffectiveness of its hedging instruments in 2011, cf. IAS 39 *Financial Instruments: Recognition and Measurement*. In 2010, a few contracts were ineffective and were therefore reclassified as trading contracts. The profit impact at the date of reclassification was a loss of DKK 1 million.

### Trading part

There were no forward exchange contracts under the trading part at 31 December 2011.

| Forward exchange contracts | Contract value DKKm | Exchange gain/loss recognised in the income statement DKKm | Average hedge prices of existing forward exchange contracts DKK | Maturity period |
|---|---|---|---|---|
| **2010** | | | | |
| GBP | - | (1) | - | - |
| **Forward exchange contracts** | **-** | **(1)** | | |

| Currency options (zero-cost options) | Contract value DKKm | Exchange gain/loss recognised in the income statement DKKm | Average exercise prices DKK | Maturity period |
|---|---|---|---|---|
| **2011** | | | | |
| EUR/DKK (EUR put bought) | 597 | 3 | 746.17 | Aug. 2012 |
| EUR/DKK (EUR call sold) | 1,194 | (1) | 746.17 | Aug. 2012 |
| **Currency options** | | **2** | | |
| **2010** | | | | |
| EUR/DKK (EUR put bought) | 448 | 1 | 746.25 | Oct. 2011 |
| EUR/DKK (EUR call sold) | 896 | (1) | 746.66 | Oct. 2011 |
| **Currency options** | | **-** | | |

At 31 December 2011, a number of currency options had been concluded under the trading part to hedge commercial cash flows in EUR, as this provided an opportunity for a better settlement price than an alternative forward sale. The same applied at 31 December 2010.

| Currency hedging reserve | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Deferred exchange gains/losses at 01.01. | (4) | 33 |
| Adjustments, deferred exchange gains/losses, hedging, recognised under other comprehensive income | 63 | (160) |
| Exchange gains/losses, hedging, transferred to revenue | (81) | 97 |
| Exchange gains/losses, hedging, transferred to prepayments from Forest (balance sheet) | (14) | 25 |
| Exchange gains/losses, trading, transferred to net financials (transferred from hedging) | - | 1 |
| **Deferred exchange gains/losses at 31.12.** | **(36)** | **(4)** |

# NOTE 24

## 24. FINANCIAL INSTRUMENTS – CONTINUED

**Monetary assets and liabilities for the most important currencies at 31 December**

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| **Monetary assets** | | |
| CAD | 171 | 113 |
| CHF | 70 | 59 |
| GBP | 200 | 218 |
| TRY | 103 | 128 |
| USD | 617 | 379 |
| | | |
| **Monetary liabilities** | | |
| CAD | 182 | 68 |
| CHF | 19 | 15 |
| GBP | 100 | 75 |
| TRY | 21 | 26 |
| USD | 1,384 | 890 |

Monetary assets and monetary liabilities include trade receivables, other receivables, securities, cash, mortgage and bank debt, trade payables and other payables.

Due to the long-standing fixed exchange rate policy in Denmark, the foreign currency risk for EUR is considered immaterial, and EUR is therefore not included in the list above.

At the end of 2011, 98% of Lundbeck's anticipated cash flows in USD for 2012 were hedged (93% at the end of 2010).

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

| | CAD DKKm | CHF DKKm | GBP DKKm | TRY DKKm | USD DKKm |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Profit | (2) | - | (32) | 1 | (30) |
| Equity | (28) | (7) | (33) | (2) | 250 |
| | | | | | |
| **2010** | | | | | |
| Profit | 1 | 1 | (2) | 2 | (9) |
| Equity | (15) | (5) | 3 | (4) | 219 |

The profit impact includes exchange adjustments which concern intra-group balances, and which are not eliminated in the consolidated financial statements.

Lundbeck's USD income derives primarily from sales to Forest and revenue in Lundbeck Inc.

According to the Group's accounting policies in respect of Forest, the minimum price is recognised as income at the time of invoicing, and the excess amount is recognised in the balance sheet as a prepayment. Prepayments and any remaining settlement will be recognised as Forest subsequently sells the products. Income and expenses relating to hedging contracts covering this part of the hedged cash flows are recognised in the balance sheet together with the prepayments and subsequently recognised in the income statement as Forest sells the products. At 31 December 2011, an exchange gain of DKK 8 million (exchange loss of DKK 30 million in 2010) had been recognised in the balance sheet together with the prepayments.

**Interest rate risks**

Interest rate risk management is handled centrally by the parent company. Through the treasury policy, the Board of Directors has approved the limits for borrowing and investment. Loans secured by real 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, Caps, Floors and Forward Rate Agreements (FRAs).

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 2011, the securities portfolio had a duration of 0.3 years, which translates into a gain/loss of DKK 4 million if interest rates should fall/rise by 1 percentage point.

There were no derivatives at 31 December 2011 and 31 December 2010 to manage interest rate risks because the distribution of debt carrying floating and fixed interest at the given times was deemed to be satisfactory.

# NOTE 24

## 24. FINANCIAL INSTRUMENTS – CONTINUED

### Maturity dates for financial assets and financial liabilities

| | Less than 1 year DKKm | Between 1 and 5 years DKKm | More than 5 years DKKm | Total DKKm | Effective interest rates |
|---|---|---|---|---|---|
| **2011** | | | | | |
| **Financial assets** | | | | | |
| Derivatives included in the trading portfolio | 4 | - | - | 4 | 0% |
| Securities[1] | 1,458 | 18 | - | 1,476 | 0-5% |
| **Financial assets measured at fair value through profit or loss** | **1,462** | **18** | **-** | **1,480** | |
| Derivatives to hedge future cash flows | 12 | - | - | 12 | 0% |
| **Financial assets used as hedging instruments** | **12** | **-** | **-** | **12** | |
| Receivables[2] | 2,960 | 52 | - | 3,012 | 0% |
| Fixed-term deposits | 1,615 | - | - | 1,615 | 0-8% |
| Other cash resources | 852 | - | - | 852 | 0-8% |
| **Loans and receivables** | **5,427** | **52** | **-** | **5,479** | |
| **Available-for-sale financial assets** | **-** | **83** | **-** | **83** | 0% |
| **Total financial assets** | **6,901** | **153** | **-** | **7,054** | |
| **Financial liabilities** | | | | | |
| Derivatives included in the trading portfolio | 3 | - | - | 3 | 0% |
| **Financial liabilities measured at fair value through profit or loss** | **3** | **-** | **-** | **3** | |
| Derivatives to hedge future cash flows | 71 | - | - | 71 | 0% |
| **Financial liabilities used as hedging instruments** | **71** | **-** | **-** | **71** | |
| Mortgage debt[3] | - | - | 1,860 | 1,860 | 1-3% |
| Employee bonds | 13 | 45 | - | 58 | 3-6% |
| Other payables | 4,017 | 2 | - | 4,019 | 0% |
| **Financial liabilities measured at amortised cost** | **4,030** | **47** | **1,860** | **5,937** | |
| **Total financial liabilities** | **4,104** | **47** | **1,860** | **6,011** | |

The amounts in the table above are exclusive of interest.

1) The securities are classified as financial assets measured at fair value through profit or loss.
2) Including other receivables recognised in non-current assets.
3) Nominal value of mortgage debt falling due after more than five years totalled DKK 1,992 million (DKK 2,019 million in 2010).

# NOTE 24

## 24. FINANCIAL INSTRUMENTS – CONTINUED

### Maturity dates for financial assets and financial liabilities

| | Less than 1 year DKKm | Between 1 and 5 years DKKm | More than 5 years DKKm | Total DKKm | Effective interest rates |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **Financial assets** | | | | | |
| Derivatives included in the trading portfolio | 1 | - | - | 1 | 0% |
| Securities[1] | 46 | 8 | - | 54 | 0-5% |
| **Financial assets measured at fair value through profit or loss** | **47** | **8** | **-** | **55** | |
| Derivatives to hedge future cash flows | 41 | - | - | 41 | 0% |
| **Financial assets used as hedging instruments** | **41** | **-** | **-** | **41** | |
| Receivables[2] | 2,452 | 57 | - | 2,509 | 0% |
| Fixed-term deposits | 1,491 | - | - | 1,491 | 0-4% |
| Other cash resources | 803 | - | - | 803 | 0-6% |
| **Loans and receivables** | **4,746** | **57** | **-** | **4,803** | |
| **Available-for-sale financial assets** | **-** | **21** | **-** | **21** | 0% |
| **Total financial assets** | **4,834** | **86** | **-** | **4,920** | |
| **Financial liabilities** | | | | | |
| Derivatives included in the trading portfolio | 1 | - | - | 1 | 0% |
| **Financial liabilities measured at fair value through profit or loss** | **1** | **-** | **-** | **1** | |
| Derivatives to hedge future cash flows | 62 | - | - | 62 | 0% |
| **Financial liabilities used as hedging instruments** | **62** | **-** | **-** | **62** | |
| Mortgage debt[3] | - | - | 1,858 | 1,858 | 1-4% |
| Employee bonds | - | 58 | - | 58 | 3-6% |
| Other payables | 3,164 | 2 | - | 3,166 | 0% |
| **Financial liabilities measured at amortised cost** | **3,164** | **60** | **1,858** | **5,082** | |
| **Total financial liabilities** | **3,227** | **60** | **1,858** | **5,145** | |

The amounts in the table above are exclusive of interest.

1) The securities are classified as financial assets measured at fair value through profit or loss.
2) Including other receivables recognised in non-current assets.
3) Nominal value of mortgage debt falling due after more than five years totalled DKK 1,992 million (DKK 2,019 million in 2010).

# NOTES 24-25

## 24. FINANCIAL INSTRUMENTS – CONTINUED

| Financial assets and financial liabilities measured at fair value | Level 1 DKKm | Level 2 DKKm | Level 3 DKKm |
|---|---|---|---|
| **2011** | | | |
| **Financial assets** | | | |
| Securities | 1,438 | 38 | - |
| Available-for-sale financial assets | 65 | - | 18 |
| Derivatives | - | 16 | - |
| **Financial assets measured at fair value** | **1,503** | **54** | **18** |
| | | | |
| **Financial liabilities** | | | |
| Derivatives | - | 74 | - |
| **Financial liabilities measured at fair value** | **-** | **74** | **-** |

In 2011, financial assets measured at fair value according to level 3 comprised primarily investments in Ossianix Inc., Naurex Inc., Warren Pharmaceuticals Inc. and Cross Atlantic Partners K/S IV.

| Financial assets and financial liabilities measured at fair value | Level 1 DKKm | Level 2 DKKm | Level 3 DKKm |
|---|---|---|---|
| **2010** | | | |
| **Financial assets** | | | |
| Securities | 17 | 37 | - |
| Available-for-sale financial assets | 2 | - | 19 |
| Derivatives | - | 42 | - |
| **Financial assets measured at fair value** | **19** | **79** | **19** |
| | | | |
| **Financial liabilities** | | | |
| Derivatives | - | 63 | - |
| **Financial liabilities measured at fair value** | **-** | **63** | **-** |

In 2010, financial assets measured at fair value according to level 3 comprised primarily investments in Privathospitalet Hamlet A/S, Warren Pharmaceuticals Inc. and Cross Atlantic Partners K/S IV.

| Financial assets measured at fair value according to level 3 | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Carrying amount at 01.01. | 19 | 23 |
| Additions | 17 | - |
| Disposals | (11) | - |
| Fair value adjustment | (7) | (4) |
| **Carrying amount at 31.12.** | **18** | **19** |

## 25. CONTRACTUAL OBLIGATIONS

### Rental and lease obligations

The Group has obligations amounting to DKK 549 million (DKK 526 million in 2010) in the form of rentals and leasing of operating equipment.

| Future rental and lease payments | Land and buildings DKKm | Operating equipment DKKm | Total DKKm |
|---|---|---|---|
| **2011** | | | |
| Less than 1 year | 92 | 56 | 148 |
| Between 1 and 5 years | 243 | 86 | 329 |
| More than 5 years | 72 | - | 72 |
| **Total** | **407** | **142** | **549** |
| | | | |
| **2010** | | | |
| Less than 1 year | 100 | 53 | 153 |
| Between 1 and 5 years | 258 | 61 | 319 |
| More than 5 years | 54 | - | 54 |
| **Total** | **412** | **114** | **526** |

Rental and lease payments recognised in the income statement in 2011 amounted to DKK 174 million (DKK 165 million in 2010).

### Other purchase obligations

The Group has undertaken purchase obligations in the amount of DKK 318 million (DKK 251 million in 2010).

### Research and development collaborations

The Group is part of multi-year research and development collaboration projects comprising minimum research and development obligations in the order of DKK 126 million (DKK 0 million in 2010). The total amount of the obligations may increase substantially in line with the favourable development of the research and development projects.

### Other contractual obligations

The Group has entered into various service agreements amounting to DKK 80 million (DKK 76 million in 2010).

At 31 December 2011, the Group had capital contribution obligations amounting to DKK 2 million (DKK 0 million in 2010).

# NOTES 26-27

## 26. CONTINGENT LIABILITIES

**Forest**
See note 2 *Segment information* in respect of the consequence of a launch of generic escitalopram in the US.

Prepayments from Forest have been translated at the exchange rate at the transaction date or at the forward rate and recognised in the balance sheet in the amount of DKK 234 million (DKK 517 million in 2010). If the translation had been made at the exchange rate at the balance sheet date, the prepayments would have amounted to DKK 286 million (DKK 493 million in 2010).

**Bank guarantees and letters of intent**
The Group's bankers have issued bank guarantees to third parties in the amount of DKK 136 million (DKK 117 million in 2010). In 2010, the Group had issued a guarantee to a third party in the amount of DKK 9 million. The Group has assessed that the fair value of guarantees is DKK 0 million (DKK 0 million in 2010).

**Pending legal proceedings**
The Group is involved in legal proceedings in a number of countries against a number of businesses, 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, results of operations or cash flows beyond the amount provided for in the financial statements. Due to uncertainty about the outcome of the legal proceedings, the amount of the provision is uncertain. See *Risk management,* p. 42, for more details.

The Group is involved in a case filed by the United States Federal Trade Commission (FTC) in respect of the pricing of NeoProfen®, which is marketed by Lundbeck Inc. in the US. In September 2010, the U.S. Federal District Court ruled in favour of Lundbeck. FTC and the State of Minnesota appealed the ruling. In August 2011, Lundbeck also won the appeal. In January 2012, Lundbeck received a statement from the Chairman of FTC that they do not intend to seek review by the US Supreme Court of the appeal case. However, legal possibilities exist for appeal until 20 February 2012. Lundbeck awaits the final conclusion.

In 2010, the European Commission opened a formal investigation to examine whether Lundbeck by way of unilateral behaviour and/or agreements has violated EU competition law and thereby hindered a lawful entry of generic citalopram into markets in the European Economic Area (EEA). During 2011, Lundbeck has complied with a number of 'Requests for Information' from the Commission.

In December 2011, the Brazilian antitrust authorities (Secretariat of Economic Law – SDE) 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.

**Industry obligations**
The Group has return obligations normal for the industry. Management expects no major loss on these obligations.

## 27. RELATED PARTIES

**Lundbeck's related parties**
- The parent company's principal shareholder, Lundbeckfond Invest A/S, Vestagervej 17, 2900 Hellerup, Denmark, which is wholly owned by the Lundbeck Foundation.
- Lundbeck Foundation.
- Companies in which the principal shareholder 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 the parent company's principal shareholder**
Lundbeckfond Invest A/S, which is the parent company's largest shareholder, held 137,351,918 shares at 31 December 2011 (137,351,918 shares at 31 December 2010), corresponding to approximately 70% of the share capital and votes in H. Lundbeck A/S (approximately 70% in 2010). Lundbeckfond Invest A/S is the only shareholder who has reported a shareholding exceeding 5% of the share capital. This was also the case at 31 December 2010.

There have been the following transactions and balances with the parent company's principal shareholder:
- Dividends.
- Payment of provisional tax and residual tax of DKK 462 million in 2011 (DKK 1 billion in 2010) concerning the parent company and Danish subsidiaries.
- Interest income of DKK 2 million in 2011 (DKK 0 million in 2010) from Lundbeckfond Invest A/S.

Lundbeckfond Invest A/S / the Lundbeck Foundation has a controlling influence in H. Lundbeck A/S.

**Transactions and balances with ALK-Abelló A/S**
There have been no transactions or balances with ALK-Abelló A/S.

**Transactions and balances with Falck A/S**
There have been no material transactions or balances with Falck A/S.

**Transactions and balances with the Executive Management and Board of Directors**
In addition to the transactions with members of the Executive Management and Board of Directors outlined in note 3 *Staff costs*, the parent company has paid dividends on shares held by members of the Executive Management and Board of Directors in H. Lundbeck A/S. At 31 December 2011 and 31 December 2010, there were no balances with the Executive Management and Board of Directors.

**Transactions and balances with other related parties**
In 2011, Lundbeck granted contributions of DKK 4 million (DKK 5 million in 2010) 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 related parties.

# NOTE 28

## 28. SUBSIDIARIES

| | Share of voting rights and ownership |
|---|---|
| Lundbeck Argentina S.A., Argentina | 100% |
| Lundbeck Australia Pty Ltd, Australia, including | 100% |
| - CNS Pharma Pty Ltd, Australia | 100% |
| Lundbeck Austria GmbH, Austria | 100% |
| Lundbeck S.A., Belgium | 100% |
| Lundbeck Brasil Ltda., Brazil | 100% |
| Lundbeck Canada Inc., Canada | 100% |
| Lundbeck Chile Farmacéutica Ltda., Chile | 100% |
| Lundbeck (Beijing) Pharmaceuticals Consulting Co., Ltd., China | 100% |
| Lundbeck Colombia S.A.S., Colombia | 100% |
| Lundbeck Croatia d.o.o., Croatia | 100% |
| Lundbeck Czech Republic s.r.o., Czech Republic | 100% |
| Lundbeck China Holding A/S[1], Denmark, including | 67% |
| - Lundbeck Pharmaceuticals (Tianjin) Co., Ltd., China | 100% |
| - Lundbeck Pharmaceuticals Consulting (Shanghai) Co., Ltd., China | 100% |
| Lundbeck Cognitive Therapeutics A/S, Denmark | 100% |
| Lundbeck Export A/S, Denmark | 100% |
| Lundbeck Insurance A/S, Denmark | 100% |
| Lundbeck Pharma A/S, Denmark | 100% |
| Lundbeck Eesti A/S, Estonia | 100% |
| OY H. Lundbeck AB, Finland | 100% |
| Lundbeck SAS, France | 100% |
| Sofipharm SA, France, including | 100% |
| - Laboratoire Elaiapharm SA, France | 100% |
| Lundbeck GmbH, Germany | 100% |
| Lundbeck Hellas S.A., Greece | 100% |
| Lundbeck Hungária KFT, Hungary | 100% |
| Lundbeck India Private Limited, India | 100% |
| Lundbeck (Ireland) Ltd., Ireland | 100% |
| Lundbeck Israel Ltd., Israel | 100% |
| Lundbeck Italia S.p.A., Italy | 100% |
| Lundbeck Pharmaceuticals, Italy S.p.A., Italy, including | 100% |
| - Archid S.a., Luxembourg | 100% |
| Lundbeck Japan K. K., Japan | 100% |
| Lundbeck Korea Co., Ltd., Republic of Korea | 100% |
| SIA Lundbeck Latvia, Latvia | 100% |
| UAB Lundbeck Lietuva, Lithuania | 100% |
| Lundbeck México, SA de CV, Mexico | 100% |
| Lundbeck B.V., The Netherlands | 100% |
| Lundbeck New Zealand Limited, New Zealand | 100% |
| H. Lundbeck AS, Norway, including | 100% |
| - CNS Pharma AS, Norway | 100% |
| Lundbeck Pakistan (Private) Limited, Pakistan | 100% |
| Lundbeck America Central S.A., Panama | 100% |
| Lundbeck Poland Sp.z.o.o., Poland | 100% |
| Lundbeck Portugal - Produtos Farmacêuticos Unipessoal Lda, Portugal | 100% |
| Lundbeck RUS OOO, Russia | 100% |
| Lundbeck Singapore PTE. LTD., Singapore | 100% |
| Lundbeck Slovensko s.r.o., Slovakia | 100% |
| Lundbeck Pharma d.o.o., Slovenia | 100% |
| Lundbeck South Africa (Pty) Limited, South Africa | 100% |
| Axofarma Lab, S.A., Spain | 100% |
| Lundbeck España S.A., Spain | 100% |
| H. Lundbeck AB, Sweden, including | 100% |
| - CNS Pharma AB, Sweden | 100% |
| Lundbeck (Schweiz) AG, Switzerland | 100% |
| Lundbeck Pharmaceutical GmbH, Switzerland | 100% |
| Lundbeck İlaç Ticaret Limited Şirketi, Turkey | 100% |
| Lundbeck Group Ltd. (Holding), UK, including | 100% |
| - Lundbeck Limited, UK | 100% |
| - Lundbeck Pharmaceuticals Ltd., UK | 100% |
| - Lifehealth Limited, UK | 100% |
| - Lundbeck UK LLP, UK | 100% |
| Lundbeck USA Holding, Inc.[2], USA, including | 100% |
| - Lundbeck Inc.[3], USA, including | 100% |
| - Lundbeck Pharmaceuticals Ireland Limited, Ireland | 100% |
| - Lundbeck Pharmaceuticals Services, LLC, USA | 100% |
| - Lundbeck Research USA, Inc., USA | 100% |
| Lundbeck de Venezuela, C.A., Venezuela | 100% |

1) In subsidiaries in which Lundbeck does not hold 100% of the share capital but has a put option to buy the remaining capital at a fixed price after a pre-arranged number of years, a debt obligation will be recognised instead of recognition of minority interests.
2) At 1 January 2012, the subsidiary was renamed Lundbeck USA LLC.
3) At 1 January 2012, the subsidiary was renamed Lundbeck LLC.

# NOTE 29

## 29. RELEASES FROM H. LUNDBECK A/S

| No. | Date | Subject |
|---|---|---|
| 453 | 21.12.2011 | Lundbeck submits a European Marketing Authorization Application (MAA) for Selincro™ (nalmefene) for the treatment of alcohol dependence |
| 452 | 28.11.2011 | Announcement of transactions with shares and linked securities in H. Lundbeck A/S made by executives and their closely associated persons and legal entities |
| 451 | 22.11.2011 | NDA for aripiprazole depot formulation for maintenance treatment of adult patients with schizophrenia accepted by the FDA |
| 450 | 11.11.2011 | Lundbeck and Otsuka Pharmaceutical sign historic agreement to deliver innovative medicines targeting psychiatric disorders worldwide |
| 449 | 09.11.2011 | Third quarter report 2011 – The positive momentum continues |
| 448 | 24.10.2011 | FDA approves Onfi™ (clobazam) for the adjunctive treatment of seizures associated with Lennox-Gastaut Syndrome |
| 447 | 07.09.2011 | Marie-Laure Pochon elected as Lundbeck's new EVP of Commercial Operations |
| 446 | 22.08.2011 | Announcement of transactions with shares and linked securities in H. Lundbeck A/S made by executives and their closely associated persons and legal entities |
| 445 | 22.08.2011 | Launch of Lexapro® commenced in Japan |
| 444 | 15.08.2011 | Announcement of transactions with shares and linked securities in H. Lundbeck A/S made by executives and their closely associated persons and legal entities |
| 443 | 10.08.2011 | First half report 2011 – The solid momentum continues. Expected full year results to be in the upper end of the guidance range |
| 442 | 15.06.2011 | Nalmefene completes clinical phase III programme – submission of the European Marketing Authorization Application (MAA) is expected by the end of 2011 |
| 441 | 10.06.2011 | Lundbeck announces that Stig Løkke Pedersen, Executive Vice President, Commercial Operations, resigns |
| 440 | 06.06.2011 | Announcement of transactions with shares and linked securities in H. Lundbeck A/S made by executives and their closely associated persons and legal entities |
| 439 | 31.05.2011 | Update on Lundbeck's total number of voting rights and total share capital |
| 438 | 16.05.2011 | Capital increase in Lundbeck as a result of employee warrant programme and buy-back of shares to fund Long-Term Incentive scheme |
| 437 | 16.05.2011 | Data from four clinical phase III studies of Lu AA21004 presented for the first time at the 2011 Annual Meeting of the American Psychiatric Association (APA) |
| 436 | 13.05.2011 | Start up of clinical phase III study with Lu AA21004 in Japan |
| 435 | 04.05.2011 | First quarter report 2011 – Lundbeck is off to a good start in 2011 as key products maintain momentum |
| 434 | 22.04.2011 | Lundbeck's partner Mochida receives approval of Lexapro® in Japan |
| 433 | 04.04.2011 | Sycrest® roll-out starts with the launch of the product in the important European region |
| 432 | 30.03.2011 | H. Lundbeck A/S held its Annual General Meeting on 30 March 2011 at the company's registered office |
| 431 | 29.03.2011 | A new pharmaceutical candidate enters Lundbeck's development pipeline |
| 430 | 07.03.2011 | Notice of Annual General Meeting |
| 429 | 07.03.2011 | Lundbeck's chairman, Per Wold-Olsen, will not be seeking re-election |
| 428 | 04.03.2011 | FDA accepts Lundbeck's submission of the New Drug Application for clobazam |
| 427 | 28.02.2011 | Announcement of transactions with shares and linked securities in H. Lundbeck A/S made by executives and their closely associated persons and legal entities |
| 426 | 24.02.2011 | Full year report 2010 – Lundbeck delivers at the top-end of guidance and momentum is expected to continue in 2011 |
| 425 | 08.02.2011 | Lundbeck expands its commercial opportunities in Canada and Latin America |
| 424 | 01.02.2011 | Annual general meeting at H. Lundbeck A/S |
| 423 | 20.01.2011 | The clinical phase III programme commenced on zicronapine |
| 422 | 03.01.2011 | First two clinical phase III studies confirm the profile of nalmefene as efficacious and safe in helping individuals to reduce their alcohol consumption |

# NOTE 30

## 30. EVENTS AFTER THE BALANCE SHEET DATE

**Onfi™ (clobazam) tablets now available in the US at retail pharmacies**
On 3 January 2012, Lundbeck announced that Onfi™ tablets for the treatment of Lennox-Gastaut syndrom, a rare orphan drug epilepsy disorder, are now available for prescribing in the US. Lennox-Gastaut syndrom is one of the most severe forms of epilepsy and there is a clear need for new treatment options. Onfi™ has the potential to contribute to Lundbeck's growth opportunities in the years to come.

# FINANCIAL STATEMENTS OF THE PARENT COMPANY

CONTENTS

# INCOME STATEMENT

1 JANUARY – 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm |
|---|---|---|---|
| Revenue | | 10,071 | 9,298 |
| Cost of sales | 2 | 2,364 | 2,222 |
| **Gross profit** | | **7,707** | **7,076** |
| | | | |
| Sales and distribution costs | 2 | 418 | 330 |
| Administrative expenses | 2, 3 | 867 | 828 |
| Research and development costs | 2 | 3,148 | 2,763 |
| **Profit from operations** | | **3,274** | **3,155** |
| | | | |
| Income from investments in subsidiaries | 4 | 228 | 433 |
| Financial income | | 548 | 528 |
| Financial expenses | | 453 | 324 |
| **Profit before tax** | | **3,597** | **3,792** |
| | | | |
| Tax on profit for the year | 5 | 924 | 878 |
| **Profit for the year** | 6 | **2,673** | **2,914** |

# BALANCE SHEET ASSETS

AT 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm |
|---|---|---|---|
| Patent rights | | 67 | 198 |
| Product rights | | 1,748 | 599 |
| Other rights | | 139 | 269 |
| Projects in progress | | 52 | 120 |
| **Intangible assets** | 7 | **2,006** | **1,186** |
| | | | |
| Land and buildings | | 1,641 | 1,790 |
| Plant and machinery | | 244 | 278 |
| Other fixtures and fittings, tools and equipment | | 96 | 137 |
| Prepayments and assets under construction | | 301 | 162 |
| **Property, plant and equipment** | 7 | **2,282** | **2,367** |
| | | | |
| Investments in subsidiaries | 4 | 4,786 | 4,669 |
| Receivables from subsidiaries | | 5,103 | 5,174 |
| Other investments | | 81 | 19 |
| Other receivables | | 5 | 5 |
| **Financial assets** | | **9,975** | **9,867** |
| | | | |
| **Non-current assets** | | **14,263** | **13,420** |
| | | | |
| **Inventories** | 8 | **718** | **721** |
| | | | |
| Trade receivables | | 308 | 160 |
| Receivables from subsidiaries | | 1,076 | 959 |
| Income taxes | | 1 | 81 |
| Other receivables | | 184 | 187 |
| Prepayments | 9 | 116 | 155 |
| **Receivables** | | **1,685** | **1,542** |
| | | | |
| **Securities** | | **1,420** | **-** |
| | | | |
| **Cash** | | **1,897** | **1,679** |
| | | | |
| **Current assets** | | **5,720** | **3,942** |
| | | | |
| **Assets** | | **19,983** | **17,362** |

# BALANCE SHEET EQUITY AND LIABILITIES

AT 31 DECEMBER 2011

| | Notes | 2011 DKKm | 2010 DKKm |
|---|---|---|---|
| Share capital | | 980 | 980 |
| Share premium | | 226 | 224 |
| Retained earnings | | 12,602 | 10,601 |
| **Equity** | | **13,808** | **11,805** |
| | | | |
| Deferred tax | 10 | 652 | 297 |
| Other provisions | 11 | - | 320 |
| **Provisions** | | **652** | **617** |
| | | | |
| Mortgage debt | 12 | 1,860 | 1,858 |
| Employee bonds and other debt | | 46 | 59 |
| Payables to subsidiaries | | 1,583 | 978 |
| **Non-current liabilities** | | **3,489** | **2,895** |
| | | | |
| Employee bonds | | 13 | - |
| Trade payables | | 1,220 | 1,024 |
| Payables to subsidiaries | | 217 | 183 |
| Other payables | | 350 | 321 |
| Prepayments from Forest | | 234 | 517 |
| **Current liabilities** | | **2,034** | **2,045** |
| | | | |
| **Liabilities** | | **5,523** | **4,940** |
| | | | |
| **Equity and liabilities** | | **19,983** | **17,362** |

# STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2011

| | Share capital DKKm | Share premium DKKm | Retained earnings DKKm | Equity DKKm |
|---|---|---|---|---|
| **Equity at 01.01.2011** | **980** | **224** | **10,601** | **11,805** |
| Profit for the year | - | - | 2,673 | 2,673 |
| Currency translation concerning additions to net investments in foreign subsidiaries | - | - | 107 | 107 |
| Realised exchange gains/losses concerning additions to net investments in foreign subsidiaries (transferred to the income statement) | - | - | 13 | 13 |
| Adjustment, deferred exchange gains/losses, hedging | - | - | 84 | 84 |
| Exchange gains/losses, hedging (transferred to the hedged items) | - | - | (127) | (127) |
| Tax on equity entries | - | - | (19) | (19) |
| **Comprehensive income** | **-** | **-** | **2,731** | **2,731** |
| Distributed dividends | - | - | (739) | (739) |
| Capital increase through the exercise of warrants | - | 2 | - | 2 |
| Buyback of treasury shares | - | - | (9) | (9) |
| Incentive programmes | - | - | 18 | 18 |
| **Other transactions** | **-** | **2** | **(730)** | **(728)** |
| **Equity at 31.12.2011** | **980** | **226** | **12,602** | **13,808** |

For further details, see note 18 *Share capital* in the consolidated financial statements.

# NOTES 1-2

## 1. 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 large reporting class D enterprises. The annual report is presented in Danish kroner (DKK).

The accounting policies are unchanged from the previous year.

**Differences relative to the Group's accounting policies**
The parent company's accounting policies for recognition and measurement are in accordance with the Group's policies with the exceptions stated below.

### INCOME STATEMENT

**Income from investments in subsidiaries**
Dividends from subsidiaries are recognised 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.

### 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 company 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 recognised under net financials in the income statement.

**Statement of changes in equity**
Pursuant to the schedule requirements of the Danish Financial Statements Act, entries recognised in the statement of comprehensive income in the consolidated financial statements are recognised 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 is presented, as this is included in the consolidated cash flow statement.

## 2. STAFF COSTS

**Wages and salaries, etc.**

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Short-term staff benefits | 1,240 | 1,148 |
| Pension benefits | 114 | 107 |
| Other social security costs | 24 | 24 |
| Share-based payments | 15 | 11 |
| **Total** | **1,393** | **1,290** |
| | | |
| **The year's staff costs are specified as follows:** | | |
| Cost of sales | 298 | 312 |
| Sales and distribution costs | 19 | 15 |
| Administrative expenses | 376 | 396 |
| Research and development costs | 700 | 567 |
| **Total** | **1,393** | **1,290** |
| | | |
| **Executives**[1] | | |
| Short-term staff benefits | 48 | 45 |
| Pension benefits | 10 | 9 |
| Share-based payments | 9 | 4 |
| **Total** | **67** | **58** |

1) Executives are individuals who report directly to the Executive Management.

**Executive Management**
See note 3 *Staff costs* in the consolidated financial statements.

**Board of Directors**
See note 3 *Staff costs* in the consolidated financial statements.

**Number of employees**

| | 2011 | 2010 |
|---|---|---|
| **Average number of full-time employees in the financial year** | **1,944** | **1,972** |
| | | |
| **Number of full-time employees at 31.12.** | **1,918** | **1,969** |

**Incentive programmes**
See note 3 *Staff costs* in the consolidated financial statements.

# NOTES 3-6

## 3. AUDIT FEES

| Deloitte Statsautoriseret Revisionspartnerselskab | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Statutory audit | 2 | 2 |
| Other services | 2 | 2 |
| **Total** | **4** | **4** |

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

## 4. INVESTMENTS IN SUBSIDIARIES

| | 2011 DKKm |
|---|---|
| Cost at 01.01. | 4,669 |
| Capital contributions to subsidiaries | 610 |
| Capital reductions in subsidiaries | (493) |
| **Cost at 31.12.** | **4,786** |

Income from investments in subsidiaries is dividends, which amounted to DKK 228 million at 31 December 2011 (DKK 433 million in 2010).

In 2011, the parent company renounced debt to subsidiaries totalling DKK 423 million, of which DKK 160 million was written down in 2010.

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

## 5. TAX ON PROFIT FOR THE YEAR

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Current tax | 579 | 887 |
| Prior-year adjustments, current tax | 9 | 7 |
| Prior-year adjustments, deferred tax | 24 | (1) |
| Change of deferred tax for the year | 331 | 40 |
| **Total tax for the year** | **943** | **933** |
| | | |
| **Tax for the year is composed of:** | | |
| Tax on profit for the year | 924 | 878 |
| Tax on equity entries | 19 | 55 |
| **Total tax for the year** | **943** | **933** |

## 6. DISTRIBUTION OF PROFIT

| Proposed distribution of profit for the year | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Proposed dividends for the year | 685 | 739 |
| Transferred to distributable reserves | 1,988 | 2,175 |
| **Total profit for the year** | **2,673** | **2,914** |
| | | |
| **Proposed dividend per share (DKK)** | **3.49** | **3.77** |

# NOTES 7-9

## 7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

| Intangible assets | Patent rights DKKm | Product rights[1] DKKm | Other rights[2] DKKm | Projects in progress[2] DKKm | Intangible assets DKKm |
|---|---|---|---|---|---|
| Cost at 01.01.2011 | 663 | 953 | 892 | 120 | 2,628 |
| Reclassification | - | 75 | - | (75) | - |
| Additions | - | 1,143 | 29 | 28 | 1,200 |
| Disposals | - | (8) | (1) | (21) | (30) |
| **Cost at 31.12.2011** | **663** | **2,163** | **920** | **52** | **3,798** |
| | | | | | |
| Amortisation at 01.01.2011 | 465 | 354 | 623 | - | 1,442 |
| Amortisation | 28 | 69 | 112 | - | 209 |
| Impairment | 103 | - | 47 | - | 150 |
| Disposals | - | (8) | (1) | - | (9) |
| **Amortisation at 31.12.2011** | **596** | **415** | **781** | **-** | **1,792** |
| **Carrying amount at 31.12.2011** | **67** | **1,748** | **139** | **52** | **2,006** |

| Property, plant and equipment | Land and buildings DKKm | Plant and machinery DKKm | Other fixtures and fittings, tools and equipment[3] DKKm | Prepayments and assets under construction DKKm | Property, plant and equipment DKKm |
|---|---|---|---|---|---|
| Cost at 01.01.2011 | 3,082 | 876 | 715 | 162 | 4,835 |
| Additions | 20 | 26 | 12 | 190 | 248 |
| Disposals | (4) | (4) | (3) | (51) | (62) |
| **Cost at 31.12.2011** | **3,098** | **898** | **724** | **301** | **5,021** |
| | | | | | |
| Depreciation at 01.01.2011 | 1,292 | 598 | 578 | - | 2,468 |
| Depreciation | 133 | 57 | 46 | - | 236 |
| Impairment | 34 | 2 | 6 | - | 42 |
| Disposals | (2) | (3) | (2) | - | (7) |
| **Depreciation at 31.12.2011** | **1,457** | **654** | **628** | **-** | **2,739** |
| **Carrying amount at 31.12.2011** | **1,641** | **244** | **96** | **301** | **2,282** |

1) Of product rights, DKK 1,242 million relates to products not yet commercialised.
2) Other rights and projects in progress primarily include items such as the IT system SAP. The amounts include directly attributable internal expenses.
3) Including leasehold improvements.

**Impairment of intangible assets**

In 2011, the parent company wrote down patent rights and other rights by a total amount of DKK 150 million. The impairment loss is recognised in the income statement under cost of sales in the amount of DKK 31 million, under administrative expenses in the amount of DKK 5 million and under research and development costs in the amount of DKK 114 million. The recoverable amount was calculated on the basis of management's re-assessed estimate of the value in use of the assets.

**Impairment of property, plant and equipment**

In 2011, the parent company wrote down property, plant and equipment by a total amount of DKK 42 million. The impairment loss is recognised under cost of sales in the amount of DKK 21 million, under administrative expenses in the amount of DKK 4 million and under research and development costs in the amount of DKK 17 million. The recoverable amount was calculated on the basis of management's re-assessed estimate of the value in use of the assets.

**Pledged assets**

The carrying amount of pledged land and buildings at 31 December 2011 was DKK 1,636 million. No other assets have been pledged.

## 8. INVENTORIES

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Raw materials and consumables | 115 | 108 |
| Work in progress | 313 | 330 |
| Finished goods and goods for resale | 290 | 283 |
| **Total** | **718** | **721** |
| | | |
| **Indirect cost of production** | **214** | **252** |
| **Impairment loss for the year** | **3** | **7** |

## 9. PREPAYMENTS

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Prepaid cost of goods sold | 25 | 33 |
| Prepaid IT expenses | 18 | 19 |
| Prepaid insurance | 22 | 20 |
| Prepaid marketing activities | 14 | 17 |
| Other | 37 | 66 |
| **Total** | **116** | **155** |

# NOTE 10

## 10. DEFERRED TAX

**Temporary differences between assets and liabilities as stated in the financial statements and as stated in the tax base**

| 2011 | Balance at 01.01. DKKm | Adjustment of deferred tax at beginning of year DKKm | Movement during the year DKKm | Balance at 31.12. DKKm |
|---|---|---|---|---|
| Intangible assets | 786 | 86 | 952 | 1,824 |
| Property, plant and equipment | 827 | - | (224) | 603 |
| Inventories | 235 | - | (20) | 215 |
| Prepayments from Forest | (517) | - | 283 | (234) |
| Other items | (144) | 11 | 333 | 200 |
| **Total temporary differences** | **1,187** | **97** | **1,324** | **2,608** |
| **Deferred (tax assets)/tax liabilities** | **297** | **24** | **331** | **652** |

| Deferred (tax assets)/tax liabilities | 2011 Deferred tax assets DKKm | 2011 Deferred tax liabilities DKKm | 2011 Net DKKm | 2010 Deferred tax assets DKKm | 2010 Deferred tax liabilities DKKm | 2010 Net DKKm |
|---|---|---|---|---|---|---|
| Intangible assets | - | 456 | 456 | - | 196 | 196 |
| Property, plant and equipment | - | 151 | 151 | - | 207 | 207 |
| Inventories | - | 53 | 53 | - | 59 | 59 |
| Prepayments from Forest | (58) | - | (58) | (129) | - | (129) |
| Other items | - | 50 | 50 | (36) | - | (36) |
| **Deferred (tax assets)/tax liabilities** | **(58)** | **710** | **652** | **(165)** | **462** | **297** |
| Netting | 58 | (58) | - | 165 | (165) | - |
| **Total net deferred (tax assets)/tax liabilities** | **-** | **652** | **652** | **-** | **297** | **297** |

# NOTES 11-14

## 11. OTHER PROVISIONS

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Provisions at 01.01. | 320 | 304 |
| Currency translation | (4) | 12 |
| Provisions charged | - | 5 |
| Provisions used | (192) | (1) |
| Unused provisions reversed | (124) | - |
| **Provisions at 31.12.** | **-** | **320** |
| | | |
| **Provisions break down as follows:** | | |
| Non-current provisions | - | 320 |
| Current provisions | - | - |
| **Provisions at 31.12.** | **-** | **320** |

Dissolution of other provisions relates to the defence of the parent company's intellectual property rights as well final closing of the divestment of the production facilities in the UK.

## 12. MORTGAGE DEBT, BANK DEBT AND OTHER LONG-TERM DEBT

| | 2011 DKKm | 2010 DKKm |
|---|---|---|
| Mortgage debt | 1,860 | 1,858 |
| **Total debt falling due after more than 5 years** | **1,860** | **1,858** |

## 13. FINANCIAL INSTRUMENTS

See note 24 *Financial instruments* in the consolidated financial statements.

## 14. CONTRACTUAL OBLIGATIONS

**Rental and lease obligations**

The parent company has obligations amounting to DKK 55 million (DKK 52 million in 2010) in the form of rentals and leasing of operating equipment.

| Future rental and lease obligations | Land and buildings DKKm | Operating equipment DKKm | Total DKKm |
|---|---|---|---|
| **2011** | | | |
| Less than 1 year | 14 | 5 | 19 |
| Between 1 and 5 years | 20 | 16 | 36 |
| **Total** | **34** | **21** | **55** |
| | | | |
| **2010** | | | |
| Less than 1 year | 14 | 10 | 24 |
| Between 1 and 5 years | 19 | 9 | 28 |
| **Total** | **33** | **19** | **52** |

Rental and lease payments recognised in the income statement in 2011 amounted to DKK 31 million (DKK 31 million in 2010).

**Other purchase obligations**

The parent company has undertaken purchase obligations in the amount of DKK 280 million (DKK 189 million in 2010).

**Research and development collaborations**

The parent company is part of multi-year research and development collaboration projects comprising minimum research and development obligations in the order of DKK 126 million (DKK 0 million in 2010). The total amount of the obligations may increase substantially in line with the favourable development of the research and development projects.

**Other contractual obligations**

The parent company has entered into various service agreements amounting to DKK 77 million (DKK 76 million in 2010).

At 31 December 2011, the parent company had capital contribution obligations amounting to DKK 2 million (DKK 0 million in 2010).

# NOTES 15-18

## 15. CONTINGENT LIABILITIES

**Bank guarantees and letters of intent**
The parent company has entered into agreements to cover operating losses in certain subsidiaries. The parent company's bankers have issued bank guarantees to third parties in the amount of DKK 103 million (DKK 94 million in 2010). As collateral for other bank guarantees, the parent company has issued letters of intent to the banks in the amount of DKK 4 million (DKK 3 million in 2010) on behalf of subsidiaries. In 2010, the parent company also issued a guarantee for DKK 9 million.

**Joint taxation**
H. Lundbeck A/S and Danish subsidiaries are subject to national joint taxation with Lundbeckfond Invest A/S and other Danish affiliated companies. The companies under this joint taxation scheme are separately liable for the payment of own taxes until these have been settled with the administration company (Lundbeckfond Invest A/S). After such time, Lundbeckfond Invest A/S is liable for the combined taxes under the joint taxation scheme.

Except for the above, the Group's and the parent company's contingent liabilities are identical, and reference is therefore made to note 26 *Contingent liabilities* in the consolidated financial statements.

## 16. RELATED PARTIES

See note 27 *Related parties* in the consolidated financial statements.

## 17. TREASURY SHARES

| | **Shares of DKK 5 nom.** Number | **Nominal value** DKKm | **Share of share capital** % | **Cost** DKKm |
|---|---|---|---|---|
| Shareholding at 01.01.2011 | - | - | 0.00 | - |
| Additions | 71,025 | - | 0.04 | 9 |
| Disposals | (69,505) | - | (0.04) | (9) |
| **Shareholding at 31.12.2011** | **1,520** | **-** | **-** | **-** |

Additions for the year of treasury shares consist of shares acquired for the financing of the incentive programmes established in 2008, which vested in 2011. Disposals for the year thus concern settlement of incentive programmes established in 2008. The remaining 1,520 shares are expected to be used for partial financing of the incentive programme established in 2009. The market value of the holding of treasury shares at 31 December 2011 was DKK 0 million.

The parent company did not hold any treasury shares in 2010.

## 18. 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 2011.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted 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 2011, 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 2011.

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 2012

## EXECUTIVE MANAGEMENT

Ulf Wiinberg
President and CEO

Anders Götzsche
Executive Vice President, CFO

Anders Gersel Pedersen
Executive Vice President, Research & Development

Marie-Laure Pochon
Executive Vice President, Commercial Operations

## BOARD OF DIRECTORS

Mats Pettersson
Chairman

Thorleif Krarup
Deputy Chairman

Håkan Björklund

Kim Rosenville Christensen

Christian Dyvig

Mona Elisabeth Elster

Peter Kürstein

Jørn Mayntzhusen

Jes Østergaard

# INDEPENDENT AUDITOR'S REPORTS

## TO THE SHAREHOLDERS OF H. LUNDBECK A/S

**Report on the consolidated financial statements and parent financial statements**
We have audited the consolidated financial statements and parent financial statements of H. Lundbeck A/S for the financial year 1 January – 31 December 2011, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the 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 Danish disclosure requirements for listed companies, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

**Management's responsibility for the consolidated financial statements and 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 Danish disclosure requirements for listed companies 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.

**Auditor's responsibility**
Our responsibility is to express an opinion on the consolidated financial statements and parent financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and parent financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and parent financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the consolidated financial statements and parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and parent financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the consolidated financial statements and parent financial statements.

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

Our audit has not resulted in any qualification.

**Opinion**
In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2011, and of the results of its operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2011, and of the results of its operations for the financial year 1 January – 31 December 2011 in accordance with the Danish Financial Statements Act.

**Statement on the management review**
Pursuant to the Danish Financial Statements Act, we have read the management review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and parent financial statements.

On this basis, it is our opinion that the information provided in the management review is consistent with the consolidated financial statements and parent financial statements.

Copenhagen, 8 February 2012

**Deloitte**
Statsautoriseret Revisionspartnerselskab

Anders Dons
State Authorised Public Accountant

Martin Faarborg
State Authorised Public Accountant

# PHARMACEUTICALS REGISTERED BY LUNDBECK

| Disorder | Trademark | Compound | Indication | First registration | Registered, no. of countries[1] |
|---|---|---|---|---|---|
| **DEPRESSION /ANXIETY** | | | | | |
| | **Cipralex®, Lexapro®, Sipralexa®, Sipralex®** | Escitalopram | Depression, generalised anxiety disorder, panic disorder, social anxiety disorder, OCD, premenstrual dysphoric disorder | 2001 | 99 |
| | **Cipramil®, Seropram®, Cipram®, Celexa®** | Citalopram | Depression, panic disorder, OCD | 1989 | 72 |
| | **Deanxit®** | Flupentixol +melitracene | Mild depression | 1971 | 22 |
| | **Noritren®, Nortrilen®, Sensaval®** | Nortriptyline | Depression | 1963 | 17 |
| | **Saroten®, Sarotex®, Redomex®** | Amitriptyline | Depression | 1961 | 19 |
| **ALZHEIMER'S DISEASE** | | | | | |
| | **Ebixa®, Ebix®** | Memantine | Moderate to severe Alzheimer's disease | 2002 | 70 |
| **EPILEPSY** | | | | | |
| | **Frisium®** | Clobazam | Adjunctive epilepsy treatment | 1975 | 2 |
| | **Mebaral®** | Mephobarbital | Grand mal and petit mal epileptic seizures, anxiety | N/A | 1 |
| | **Peganone®** | Ethotoin | Grand mal and complex partial seizures | 1957 | 1 |
| | **Sabril®** | Vigabatrin | Infantile spasms and refractory complex partial seizures (adults) | 1993 | 3 |
| **HUNTINGTON'S DISEASE** | | | | | |
| | **Xenazine®** | Tetrabenazine | Chorea associated with Huntington's disease | 2008 | 3 |
| **PARKINSON'S DISEASE** | | | | | |
| | **Azilect®** | Rasagiline | Parkinson's disease | 2005 | 36 |
| **PSYCHOTIC DISORDERS** | | | | | |
| | **Buronil®, Bunil®** | Melperone | Schizophrenia | 1968 | 12 |
| | **Cisordinol®, Clopixol®** | Zuclopenthixol | Schizophrenia and other psychotic disorders, anxiety, restlessness, insomnia | 1982 | 74 |
| | **Cisordinol Depot®, Clopixol Depot®, Ciatyl-Z Depot®** | Zuclopenthixoldecanoate | Maintenance treatment of chronic psychotic disorders | 1976 | 75 |
| | **Cisordinol-Acutard®, Clopixol-Acutard®, Clopixol-Acuphase®, Ciatyl-Z-Acuphase®** | Zuclopenthixolacetate | Acute psychotic episodes, exacerbation of psychotic disorders | 1986 | 74 |
| | **Fluanxol®, Fluanxol Mite®, Depixol®** | Flupentixol | Schizophrenia, other psychotic disorders | 1965 | 56 |
| | **Fluanxol Depot®, Depixol®** | Cis(Z)-Flupentixoldecanoate | Maintenance treatment of chronic psychotic disorders | 1970 | 65 |
| | **Serdolect®, Serlect®** | Sertindole | Schizophrenia | 1996 | 54 |
| | **Saphris®/Sycrest®** | Asenapine | Bipolar disorder, schizophrenia | 2010 | 40 |
| | **Truxal®, Truxaletten®** | Chlorprothixene | Schizophrenia and other psychotic disorders, anxiety, restlessness, withdrawal symptoms in drug addicts | 1959 | 20 |
| **OTHER** | | | | | |
| | **Chemet®** | Succimer | Lead poisoning in children | 1991 | 1 |
| | **Circadin®** | Melatonin | Insomnia | 2007 | 16 |
| | **Cosmegen®** | Dactinomycine | Oncology indications | 1966 | 30 |
| | **Desoxyn®** | Methamfetamine hydrochloride | ADHD | 1943 | 1 |
| | **Elspar®** | Asparaginase | Acute lymphocytic leukaemia | 1978 | 6 |
| | **Indocin®, Indocid®, Inacid®** | Indomethacin | Patent Ductus Arteriosus (PDA) in premature infants | 1985 | 14 |
| | **Modiodal®** | Modafinil | Narcolepsy | 1994 | 2 |
| | **Mustargen®** | Mechloretamine hydrochloride | Oncology indications | 1949 | 4 |
| | **NeoProfen®** | Ibuprofen lysine | Patent Ductus Arteriosus (PDA) in premature infants | 2006 | 1 |
| | **Neostigmine Bromide®** | Neostigmine bromide | Myasthenia Gravis Paralytic Ileus Post operative urinary retention | 1932 | 1 |
| | **Panhematin®** | Hemin | Acute intermittent porphyria | 1983 | 1 |
| | **Tranxene T-TAB®** | Chlorazepate dipotassium | Short-term treatment of anxiety and alcohol withdrawal and combination treatment in partial epileptic seizures | 1972 | 1 |

1) Number of countries where Lundbeck has registrered the pharmaceutical

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# THE LUNDBECK FOUNDATION

The Lundbeck Foundation is the largest shareholder of Lundbeck, holding approximately 70% of the shares. It is a commercial foundation founded in 1954 by Grete Lundbeck, widow of the founder of H. Lundbeck A/S.

The main objective of the Foundation is to maintain and expand the activities of the Lundbeck group and to provide funding for scientific research of the highest quality. This support is given independently of Lundbeck's research.

In 2011, the Foundation granted DKK 504 million (EUR 68 million) to support research within medical and natural sciences, which is an increase of 31% compared to 2010. The Foundation expects to grant approximately the same amount in 2012. Furthermore, the Foundation has taken the initiative to establish a new international brain research prize, "The Brain Prize", as an award to honor one or more brain scientists who have distinguished themselves by an outstanding contribution to European neuroscience. The EUR 1 million prize was awarded for the first time in 2011.

In addition to its controlling shareholdings in Lundbeck, the Foundation has controlling shareholdings in ALK-Abelló and Falck. Furthermore, the Foundation manages a substantial portfolio of investments through Lundbeckfond Invest as well as investments in biotech and medtech companies through Lundbeckfond Ventures.

For further information on the Foundation, please visit www.lundbeckfonden.com.

# LUNDBECK WORLDWIDE

**PARENT COMPANY**
Denmark

**PRODUCTION**
Denmark
France
Italy

**RESEARCH**
China
Denmark
USA

**SALES**
**Europe**
Austria
Belgium
Bulgaria
Croatia
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Latvia
Lithuania
Netherlands
Norway
Poland
Portugal
Romania
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
UK

**Int. markets**
Argentina
Australia
Brazil
Canada
Central America
Chile
China
Colombia
Egypt
Hong Kong
India
Indonesia
Israel
Japan
Korea
Malaysia
Mexico
Pakistan
Philippines
Russia
Saudi Arabia
Singapore
South Africa
Turkey
Ukraine
United Arab Emirates
Venezuela

**USA**

**INSTITUTES**
The Lundbeck Institute

**Visit the Lundbeck website at www.lundbeck.com**

All patients have had their photos taken after preceding agreement.
The patients have not received any remuneration from Lundbeck.

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