Annual report 2019

Allergy solutions for life

ALK

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The latest progress on ALKs three-year transformation to establish a broader presence in the allergy market.

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The introduction of ITULAZAX® against tree pollen allergy has been ALK's most successful product launch.

Introduction

2019 highlights

- Succeed in North America
- Complete and commercialise the tablet portfolio for all relevant ages
- Patient engagement and adjacant business
- Optimise and reallocate
- Other

Jan

- Christian Houghton appointed Head of Product Supply
- Phase III paediatric efficacy and safety trial of ragweed SLIT-tablet meets primary endpoint, confirming its potential in children

Feb

- New data shows ALK's house dust mite SLIT-tablet significantly improves quality of sleep for allergic rhinitis patients

Mar

- AGM elects a new member to ALK's Board of Directors: Vincent Warnery, member of the Executive Board at Beiersdorf and former SVP of Consumer Health at Sanofi

Apr

May

klara

- Allergy companion app 'klara' is downloaded for the 100,000th time in 2019 in Germany and the UK
- Q1 report: Revenue up 14% with tablet growth of 52%

DKK

Jun

- ALK obtains European approval for its tree SLIT-tablet against allergic rhinitis
- ALK submits registration application for tree SLIT-tablet in Canada

Jul

Aug

- ALK announces new adrenaline auto-injector strategy based on innovative new product for the USA
- Q2 report: Revenue up 9% with tablet growth of 42%
- ALK divests its part share of a tablet formulation production line to partner Catalent

Sep

- Germany becomes first launch market for ALK's tree SLIT-tablet which goes on to become ALK's most successful new product launch
- Steen Riisgaard, ALK's Chairman of the Board, announces his intention to step down at the company's next AGM in March 2020

Oct

Nov

- ALK secures an amended approval for SCIT product Alutard SQ® in Germany, allowing shorter updosing to meet patient and prescriber needs
- Q3 report: Revenue up 11% with tablet growth of 35%

Dec

- ALK becomes a signatory of the United Nations' Global Compact, which outlines the UN's 10 principles on human and labour rights, the environment and anti-corruption
- First patients on board in new clinical trial for ALK's house dust mite tablet in China
- ALK sells its US veterinary business to Nextmune
- Share price ends the year up 70% since 1 January

ALK at a glance

Key figures

ALK is a global allergy solutions company, with a wide range of treatments, products and services to meet the unique needs of allergy sufferers, their families and doctors. Headquartered in Hørsholm, Denmark, the company is listed on Nasdaq Copenhagen (ALKB:DC/OMX: ALK B)

Established in
1923

Employees
~2,400

Markets
41

Patients in treatment with ALK products*
~1.9m

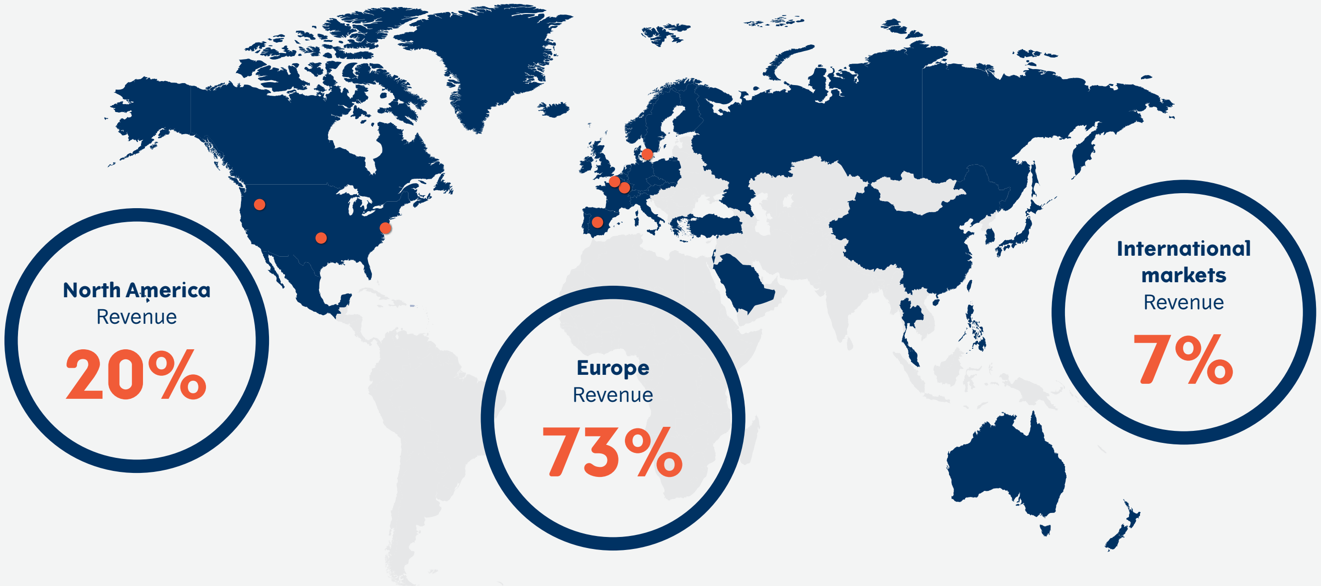
People with respiratory allergy covered by portfolio of new, evidence-based tablets
>80%

Subjects who have participated in clinical trials for the tablets
>22,000

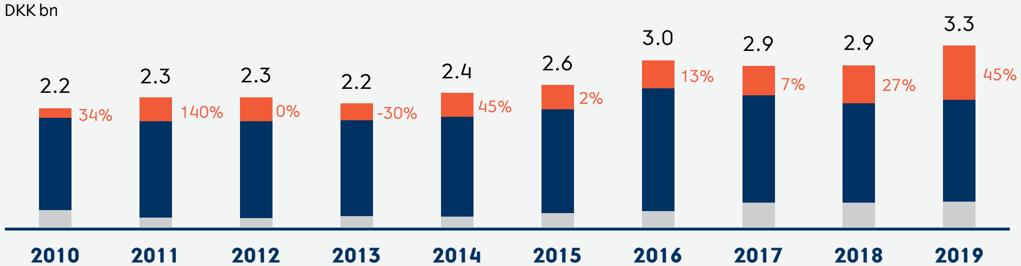
* covering AIT and anaphylaxis

Global presence

ALK is present in 41 markets, either directly or via partnerships, and has allergy immunotherapy (AIT) manufacturing locations in four countries.



Development in revenue



* includes certain milestone payments from partnerships in the period 2010 to 2016

• Production sites
ALK's unique manufacturing processes ensure its products meet required quality standards and represent a significant barrier to potential competitors, making them an important factor in maintaining ALK's market position.

Understanding allergy

Respiratory allergies

Allergies occur when the body's immune system overreacts to substances that are usually considered harmless, such as various types of pollen, house dust mites, moulds and animal fur. Allergy may lead to the development or aggravation of asthma.

Symptoms of respiratory allergies

Respiratory allergies can affect both the upper and lower respiratory tract.

Upper respiratory tract – allergic rhinitis
Runny or blocked nose, itchy eyes, sneezing.

Eyes
Nose
Mouth
Throat

Lower respiratory tract – allergic asthma
Shortness of breath, narrowed airways, coughing, wheezing.

Trachea
Bronchus
Lungs

Solutions for the world's allergies

ALK offers products, services and resources covering a wide range of allergies. The company also has products in related areas, including early allergy intervention, diagnosis and emergency treatment.

ALK's AIT products come in three different forms:

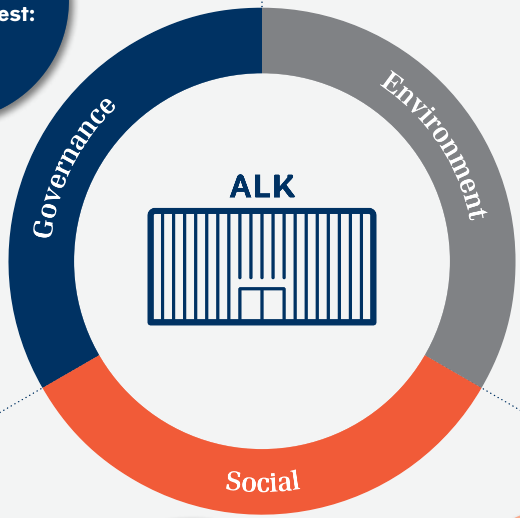
Injections: Subcutaneous allergy immunotherapy (SCIT) is given as regular injections under the skin. The treatment is administered by a doctor.

Sublingual drops: Sublingual allergy immunotherapy (SLIT) can be taken in the form of drops administered under the tongue. Patients administer the drops themselves, avoiding the need for regular visits to the doctor.

Tablets: SLIT treatment can also be taken in the form of tablets that are administered by the patient at home. These are available for five of the most important respiratory allergies. Tablet-based AIT is the most convenient and well-documented allergy treatment: No updosing necessary, no fridge necessary, and approved to the highest regulatory standards (FDA, EMA, PDMA etc.).

Environmental, social and governance

ALK is constantly refining its environmental, social and governance (ESG) framework to ensure business decisions balance sustainability considerations, always keeping in mind the best interests of the people with allergy that ALK serves.



Stable ownership structure

The Lundbeck Foundation is the largest and controlling shareholder of ALK, owning 40% of the capital and controlling 67% of the votes. The foundation's grants to public research totalled DKK 571 million in 2018.

Employees who passed the ALK anti-corruption training and test: **94%**

Women on ALK's board: **3/9***

Responsible and publicly available **Tax policy**

ALK follows the recommendations of the Danish Committee on Corporate Governance

Waste from production recycled **42%**

Renewable energy **20%**

From 2017-2019, CO_2 emissions decreased by **22%**

2/7 ALK production sites now run on renewable electricity

Climate change

Global warming affects plant and pollen cycles, which in turn increase the number of people with severe allergy. Our products help people take control of their allergy and their life.

ALK is a signatory of the United Nations' Global Compact.

ALK participates in Nasdaq's ESG Data Portal.

People with respiratory allergy covered by portfolio of new, standardised tablets **>80%**

Inspections at ALK's production facilities **13****

Women at all management levels **47%**

Policy for sharing clinical trials data publicly available

Access to health care

ALK's tablet portfolio is helping to democratise AIT by covering the most common global respiratory allergies, and by bringing new treatment options to people living outside the big cities and without easy access to allergy specialists.

* Including employee-elected members of the Board of Directors

** 10 regulatory inspections and 3 partner inspections

ALK business model

Foundation

R&D
With almost 100 years of experience, nobody knows allergy and allergic asthma like ALK. The company continuously applies its scientific knowledge to help people take control of their allergy and their life.

Natural allergen sources
ALK's biological medicines are derived from natural allergen sources, such as pollen, which it harvests, standardises and quality controls at its own source materials facilities.

Production
Production of finished AIT products takes place at dedicated facilities subject to continuous quality assurance in compliance with EU, US and Japanese pharma standards. ALK has AIT manufacturing locations in four countries.

Sales and partnerships
In addition to its own sales organisation, ALK partners for growth with leading specialty pharma companies worldwide. ALK is present in 41 markets, either directly or via partnerships.

Employees
ALK relies on a highly skilled workforce of ~2,400 people united by a set of cultural beliefs: do the right thing, pursue growth and build bridges.

Strategic priorities

Succeed in North America

Complete and commercialise the tablet portfolio for all relevant ages

Patient engagement and adjacent business

Optimise and reallocate

Allergy solutions for life

More than 500 million people worldwide have allergies. 50 million are eligible for AIT treatment, but less than five million actually receive it. ALK is working to support people with allergy much earlier in their disease journey by engaging with them, informing them and mobilising them to seek treatment. The company aims to commercialise every stage of the allergy journey.

Performance

Patients
ALK's tablet portfolio is helping to democratise AIT by covering the most common global respiratory allergies, and by bringing new treatment options to people without easy access to allergy specialists.

Doctors
ALK helps allergists to drive better access and outcomes for all AIT-eligible patients, reaching out with support, disease information and treatment options.

Society
ALK addresses profound societal challenges by producing medicines for the leading causes of lost productivity and lost work days. The company partners with payers and health authorities to advance registered, documented AIT products and is a signatory of the United Nations' Global Compact.

Employees
ALK is committed to a sustainable working life and keeps a constant focus on being a great and safe place to work for motivated and satisfied employees.

DKK

Shareholder return
ALK works to create long-term value for its shareholders.

Letter from the CEO

ALK made strong progress in 2019 as we focused on executing the second year of our three-year transformation programme, which was announced in December 2017. By the end of 2019, we were already ahead of the timetable we set ourselves for establishing a resilient, disciplined, future-oriented and responsive company that can capitalise on the major opportunities that lie ahead in helping people all over the world with allergy solutions.

We have invested significantly in all areas to establish foundations that are as strong as possible, ranging from scaling up our infrastructure in North America, to initiating and completing the final, major clinical trials for the tablets, improving quality, reducing the legacy portfolio by more than 300 products versus 2016, and establishing state-of-the-art digital platforms to help us connect in a meaningful way with ever more allergy sufferers all over the world.

It is important to state that, when the three-year transition period ends, we do not expect any significant change to the four priorities that are our focus during the transformation period. So let me say a few words about our progress on each of them:

North America still represents a significant opportunity for ALK. We have been clear that delivering success in this region is a long-term endeavour, as the way the market currently works makes a swift transformation in our favour unlikely. But we have made the necessary investments to establish a foothold here and – with our unique portfolio of legacy allergy treatments, three FDA-approved allergy tablets, and other products – we are well positioned to make positive progress over the long term.

In fact, thousands of new patients are beginning treatment on our FDA-approved tablets, and I believe that patience and high quality, in-market execution will eventually grow ALK North America to the size it should be.

The tablet portfolio continues to deliver high growth and new opportunities simultaneously. The 2019 European approval of the ITULAZAX® tree tablet means we have now fulfilled a long-held ambition of offering SLIT-tablets covering five of the world's most important respiratory allergies – house dust mite, grass, tree, ragweed and Japanese cedar. Our immediate focus remains on near-term growth drivers such as expanding geographically, growing the prescriber base, and adding new indications – for example approvals for use of the tablets in children and asthma. Meanwhile, the early signs for ITULAZAX® have been extremely positive, with a record-breaking launch in its first market, Germany, suggesting that we are on the right track.

Our **patient engagement and adjacent business** activities can have an important impact on our future success too. Thanks to our experiences with the award-winning klara app and the klarify.me digital platform in their pilot markets of Germany and the UK, we are now confident that we can engage more closely with many more allergy sufferers, helping them to improve their quality of life through our services and by connecting them with doctors who understand their needs. Based on what we have learned, we will expand these activities into more new markets during 2020, including those in North America.

It's no secret that, in the past, ALK has faced challenges on quality, efficiency and robustness. Too many of our resources were focused on avoidable issues, and we were missing out on growth opportunities. I am happy to report that the **'optimise and reallocate'** transformation efforts have improved things greatly. We have improved quality in manufacturing and re-established a more resilient supply chain. Our accelerated portfolio rationalisation programme continues to phase out older, unsustainable products and is helping to reduce manufacturing complexity. We expect a significant part of these discontinuations to be complete by end of 2020. Meanwhile, despite these, the underlying strength of our overall portfolio saw us deliver 11% sales growth in 2019 and we expect to see further growth of 8-12% in 2020 despite a negative impact on growth from product discontinuations that is equivalent to 4 percentage points.

At ALK today, I see an organisational culture where everyone is starting to pull in the same direction. We are working hard to embed this change and in 2020, we will be rolling out a training programme that will further equip our leaders to lead in a volatile, uncertain, complex and ambiguous world.

One, high profile example of our changing world is the challenge of sustainability. In December, ALK became a signatory of the United Nations' Global Compact, which outlines the UN's 10 principles on human and labour rights, the environment and anti-corruption. ALK was already a supporter of these principles and we had integrated them into our own employee Code of Conduct, as well as having already outlined our ambitions in relation to the UN's Sustainable Development Goals, but our formal commitment to the Global Compact underlines our desire to support positive change on these issues, over and above the improved health and well-being that our medicines bring.

In summary, we have invested a great deal to reach this point – in the research and development of an outstanding product range, in transforming our organisation and its ways of working, in identifying and strengthening the key areas that make the difference between success and failure. We are still a small company in a therapeutic area that is huge and still growing. That won't change overnight. But the growth potential is clear and ALK is now well equipped to deliver.

Progress will come one step at a time, and 2019 represented another important step forward. 2020 represents the final year of our transformation programme and our focus remains on relentless execution in pursuit of our goals.

Carsten Hellmann
President & CEO

"2020 represents the final year of our transformation programme and our focus remains on relentless execution in pursuit of our goals.

Carsten Hellmann, President & CEO

2020 outlook

ALK expects broad-based growth across all sales regions in 2020, with tablets as the key growth driver and anticipated to become ALK's largest single product category for the first time. Organic growth is projected at 8-12% despite accelerated portfolio rationalisations, with older, less competitive SCIT and SLIT-drops products being phased out in favour of documented, registered products. Progress is expected to be driven by strong, double-digit growth in tablet sales and growth in sales of continuing SCIT products, while the discontinuations of mainly European legacy products are expected to impact growth negatively by 4 percentage points, implying underlying growth on a like-for-like basis of 12-16%.

The better than expected results in 2018 and 2019, as well as the creation of a more resilient business platform, will allow ALK to continue its investments as planned in order to complete the transformation of the company. Accordingly, 2020 will see a substantial, planned increase in R&D costs, while the timing of investments for the production site strategy will elevate CAPEX for the year. As a result, EBITDA and free cash flow will continue to be subdued in 2020, the final year of ALK's three-year transformation programme.

Revenue

Total revenue from ALK's existing business is expected to grow organically by 8-12% in local currencies, which corresponds to full-year revenue of DKK 3.50-3.65 billion. Growth is expected to be strongest in the second half of the year, in particular, due to the expected timing of shipments to Torii in Japan.

The higher end of the revenue range includes:

- accelerated tablet sales growth across all regions, including fast uptake of the ITULAZAX® tree tablet
- continued market share gains due to the market shifting towards evidence-based AIT products
- further growth in sales of other products
- stable pricing and reimbursement conditions in Europe

The lower end of the revenue range includes:

- pressure on pricing and/or reimbursement systems, particularly in southern Europe
- a more pronounced negative effect from the European portfolio pruning
- sales fluctuations related to the timing of product shipments to Japan
- continued fluctuations in sales of legacy, non-tablet products in North America

The mid-point of the range assumes that revenue in Europe will grow in mid-single digits, corresponding to underlying growth of around 10% when disregarding discontinued legacy products. European tablets sales are expected to grow comfortably into double digits. European SCIT sales are projected to be largely unchanged due to the phasing-out of selected products, while SLIT-drops sales will decline due to product discontinuations

Continues

2020 expectations

Revenue

8-12% organic growth – in local currencies

Corresponding to DKK 3.50-3.65 billion
2019 actuals: DKK 3.27 billion

8-12% organic growth* despite accelerated phase-out of older, less competitive products which is expected to reduce growth by approximately 4 percentage points.

EBITDA

DKK 200-300 million

2019 actuals: DKK 241 million

Improved efficiency in capacity costs despite significant business investments, including a substantial increase in R&D costs.

Free cash flow

~DKK -300 million

2019 actuals: DKK -25 million

Subdued earnings and strategic investments, including CAPEX to streamline and specialise production sites.

* The divestment of the US veterinary business will impact reported growth by approximately 1 percentage point.

and market dynamics, although this decline is expected to be partly compensated for by patients transitioning to tablets in France and Germany.

Reported revenue in North America is expected to increase by approximately 10% after the divestment of the US veterinary business at the end of 2019, while organic growth is expected to be slightly higher with growth in both tablet and SCIT sales.

Revenue in International markets is projected to continue to grow in high double digits on increased tablet sales in Japan and geographic expansion.

Growth in global tablet sales is expected to exceed 30%. Combined SCIT/SLIT-drops sales are expected to decline as a result of portfolio rationalisations, although underlying broad-based growth is anticipated for the SCIT portfolio, disregarding discontinued products. Combined sales of other products (including Jext®) are projected at above 2019 levels.

The divestment of the US veterinary business is expected to further impact reported growth negatively by approximately 1 percentage point.

Earnings

Subject to revenue development, earnings before interest, tax, depreciation and amortisation (EBITDA) is projected at DKK 200-300 million.

The reported gross margin is expected to be roughly on a par with 2019, benefiting from increased sales – especially from tablets, with higher volumes absorbed by existing capacity – offset by changes in the product mix and increased lower gross-margin shipments of tablets to ALK's partner for Japan, Torii. ALK will continue to allocate significant resources to further quality upgrades and the implementation of its portfolio and site strategy, which designates each production facility as a centre of manufacturing excellence. These activities are expected to subdue the gross margin in 2020 but will lead to substantial, long-term improvements.

Capacity costs will be impacted by a significant, planned increase in R&D costs to complete the clinical development of the tablet portfolio and gather further evidence for the tablets' use in asthma, children and adolescents. R&D expenses are estimated at around DKK 600 million, a substantial increase over 2019. Key initiatives are the European and North American registration trials with ACARIZAX®/ODACTRA® in children and adolescents suffering from allergic rhinitis and allergic asthma, as well as a registration trial for ACARIZAX® in China.

In light of the significant rise in R&D costs, the overall capacity-costs-to-revenue ratio is expected to be largely unchanged even though previous investments allow ALK to increasingly leverage its existing sales and marketing platform to support the roll-out of ITULAZAX® and additional market expansion activities. Administrative expenses are expected to be on a par with 2019.

Free cash flow

Free cash flow is expected to be negative at around DKK 300 million, largely reflecting the accelerated R&D investments and increased CAPEX in support of manufacturing upgrades for core legacy products. CAPEX is projected at DKK 250-300 million with investments focused on streamlining the manufacturing footprint and further specialisation at ALK's production sites. CAPEX is also affected by the re-phasing of certain investments from 2019 to 2020. By comparison, 2019 cash flow of DKK minus 25 million included an inflow of DKK 53 million from the divestment of certain assets.

Free cash flow is also expected to be negatively affected by changes in working capital, including continued inventory build-up and a one-off repayment of accrued rebates.

Other assumptions

The outlook does not include any revenue from acquisitions, new partnerships or in-licensing of adjacent products and services, nor does it include any sizeable payments related to future M&As or in-licensing activities. The outlook is based on current exchange rates, resulting in an immaterial effect on both reported revenue and reported EBITDA.

Disclaimer

Forward-looking statements
This report contains forward-looking statements, including forecasts of future revenue, operating profit and cash flow as well as expected business-related events. Such statements are naturally subject to risks and uncertainties as various factors, some of which are beyond the control of ALK, may cause actual results and performance to differ materially from the forecasts made in this report. Without being exhaustive, such factors include, e.g., general economic and business-related conditions, including: legal issues, uncertainty relating to demand, pricing, reimbursement rules, partners' plans and forecasts, fluctuations in exchange rates, competitive factors and reliance on suppliers. Additional factors include the risks associated with the sourcing and manufacturing of ALK's products as well as the potential for side effects from the use of ALK's existing and future products, as allergy immunotherapy may be associated with allergic reactions of differing extents, durations and severities.

Performance

Financial highlights and key ratios for the ALK Group*

Amounts in DKKm/EURm**	**DKK 2019**	DKK 2018	DKK 2017	DKK 2016	DKK 2015	**EUR 2019**	EUR 2018
Income statement							
Revenue	3,274	2,915	2,910	3,005	2,569	438	390
EBITDA	241	136	253	642	451	32	18
Operating profit/(loss) (EBIT)	(14)	(96)	(80)	479	292	(2)	(13)
Net financial items	(17)	(7)	(42)	8	108	(2)	(1)
Profit/(loss) before tax (EBT)	(31)	(103)	(122)	487	400	(4)	(14)
Net profit/(loss)	(50)	(170)	(158)	270	344	(7)	(23)
Average number of employees (FTE)	2,385	2,341	2,213	2,010	1,854	2,385	2,341
Balance sheet							
Total assets	5,495	4,865	4,958	4,799	4,252	736	652
Invested capital	2,759	2,968	2,864	2,353	2,434	369	397
Equity	3,176	3,179	3,290	2,875	2,697	425	426
Cash flow and investments							
Depreciation, amortisation and impairment	255	232	333	163	159	34	31
Cash flow from operating activities	132	(95)	(387)	405	183	18	(13)
Cash flow from investing activities	(157)	(199)	(358)	(204)	(165)	(21)	(27)
– of which investment in tangible and intangible assets	(167)	(178)	(267)	(225)	(199)	(22)	(24)
– of which acquisitions of companies and operations	(20)	(21)	(94)	-	(12)	(3)	(3)
Free cash flow	(25)	(294)	(745)	201	18	(3)	(39)

Amounts in DKKm/EURm**	**DKK 2019**	DKK 2018	DKK 2017	DKK 2016	DKK 2015	**EUR 2019**	EUR 2018
Information on shares							
Proposed dividend	-	-	-	51	51	-	-
Share capital	111	111	111	101	101	14.9	14.9
Shares in thousands of DKK 10 each	11,141	11,141	11,141	10,128	10,128	11,141	11,141
Share price, at year end - DKK/EUR	1,635	960	740	920	876	218.9	128.6
Net asset value per share - DKK/EUR	285	285	295	284	266	38.2	38.2
Key figures							
Gross margin – %	57.8	56.0	56.4	66.9	67.5	57.8	56.0
EBITDA margin – %	7.4	4.7	8.7	21.4	17.6	7.4	4.7
Return on equity (ROE) – %	(1.6)	(5.3)	(5.1)	9.7	13.6	(1.6)	(5.3)
ROIC incl. goodwill – %	(0.5)	(3.3)	(3.1)	20.0	12.8	(0.5)	(3.3)
Pay-out ratio – %	-	-	-	18.9	14.8	-	-
Earnings/(loss) per share (EPS) – DKK/EUR	(4.6)	(15.6)	(15.9)	27.5	35.5	(0.6)	(2.1)
Earnings/(loss) per share (DEPS), diluted – DKK/EUR	(4.6)	(15.6)	(15.9)	27.2	35.0	(0.6)	(2.1)
Cash flow per share (CFPS) – DKK/EUR	12.1	(8.7)	(39.0)	41.3	18.9	1.6	(1.2)
Price earnings ratio (PE)	(356.0)	(61.4)	(46.5)	33.4	24.8	(356.0)	(61.4)
Share price/Net asset value	5.7	3.4	2.5	3.2	3.3	5.7	3.4
Revenue growth – %							
Organic growth	11	1	(6)	19	2	11	1
Exchange rate differences	1	(1)	(1)	(2)	4	1	(1)
Acquisitions	-	-	4	-	-	-	-
Total growth revenue	12	-	(3)	17	6	12	-

* Management's review comprises pages 1-46 as well as Financial highlights and key ratios by quarter for the ALK Group on page 96.
**Financial highlights and key ratios stated in EUR constitute supplementary information to the Management's review. The exchange rate used in translating from DKK to EUR is the exchange rate prevailing on 31 December 2019 (EUR 100 = DKK 747).

For definitions and reconciliation of alternative performance measures, see page 85.

Sales and market trends

ALK's total revenue in 2019 of DKK 3,274 million (2,915) was at the upper end of the guidance range given at the beginning of 2019, and was in line with the most recent, updated outlook, issued on 7 November. Revenue was up 11% in local currencies despite accelerated portfolio rationalisations, which saw older, less competitive products being phased out in favour of documented, registered products. These discontinuations had a negative impact on growth of approximately 1 percentage point.

(Comparative figures for 2018 are shown in brackets. Revenue growth rates are stated in local currencies, unless otherwise indicated)

Europe
European revenue was up 7% at DKK 2,368 million (2,220), with growth largely fuelled by sales of SLIT-tablets, which were up 32%. Tablet sales saw broad-based growth across European markets, driven by strong performances from ACARIZAX® and GRAZAX®, as well as encouraging early take-up of ITULAZAX®, as ALK continued to take advantage of the ongoing market shift in favour of evidence-based medicines.

Revenue from the legacy portfolio stabilised as combined SCIT and SLIT-drops sales were largely unchanged due to recovering SCIT sales and strong sales of venom products. SCIT sales were particularly strong in the second half of the year and compensated for the continuing decline in SLIT-drops sales – mainly due to the continuing market normalisation in France after the distortions of previous years – as well as the loss of revenue from discontinued products.

Sales of Other products were down 10% as they were affected by product rationalisations and sales of the adrenaline auto-injector (AAI) Jext®, which normalised following a spike in demand due to supply issues in the AAI market. However, the product still managed to retain the vast majority of its market share gains.

Overall revenue increased in most markets, including Germany, which saw growth in double-digits as sales of registered products continue to climb, fuelled by the ongoing shift away from unregistered legacy products. In France, sales declined slightly as ACARIZAX® took sales from its legacy equivalents and market normalisation continued to have an effect. Sales growth was strong in the Nordic countries, Benelux, the UK and eastern Europe.

In Italy, ALK is seeing an increasingly challenging regulatory and market access environment and has responded by restructuring and downsizing its presence in the country. As a consequence of both the business environment and the downsizing, there has been a negative impact on ALK's sales in Italy. Allergy market conditions were largely stable elsewhere in Europe, and there were no other notable changes affecting the pricing and reimbursement of AIT products during 2019, although the risk of further pressure in southern Europe remains.

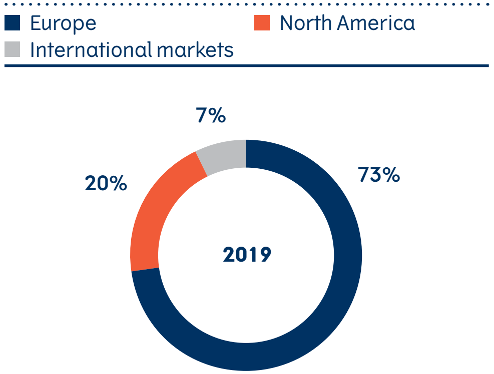
North America
Revenue in North America grew by 9% in local currencies which equated to reported revenue of DKK 669 million (583).

Continues

Revenue by geography

DKKm	2019	Growth (l.c.)	Share of revenue	2018
Europe	2,368	7%	73%	2,220
N. America	669	9%	20%	583
Intl. markets	237	112%	7%	112
Revenue	**3,274**	**11%**		**2,915**

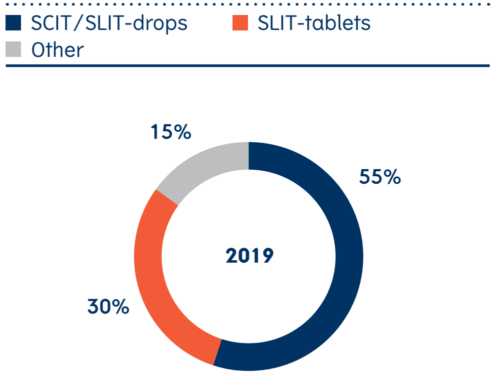
Revenue by geography



Revenue by product line

DKKm	2019	Growth (l.c.)	Share of revenue	2018
SCIT & SLIT-drops	1,818	1%	55%	1,777
SLIT-tablets	973	45%	30%	671
Other	483	0%	15%	467
Revenue	**3,274**	**11%**		**2,915**

Revenue by product line



Disregarding the divestment of the US veterinary business at the end of 2019, organic growth was 10%, which was broadly in line with ALK's 2019 target. This was achieved against a mixed backdrop of growth from SCIT products and tablets, and lower than expected sales growth for Other products, most notably due to continuously fluctuating purchasing patterns for non-allergy-related life science products.

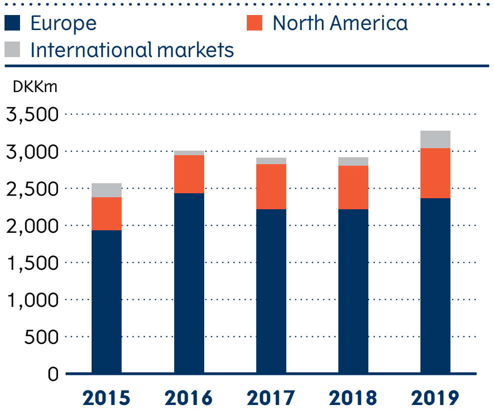
SLIT-tablet sales in North America were up 38% at DKK 85 million (59). In terms of volume, uptake was in line with ALK's 2019 targets. However, promotional activities such as rebates and coupons – essential to establishing any new medicine in the USA – lowered the effective selling price of the tablets, subduing overall revenue, which was slightly below expectations.

Sales of SCIT bulk allergen extracts to specialists and clinics were up 8% at DKK 306 million (270), while sales of diagnostics and other products increased 4% to DKK 278 million (254).

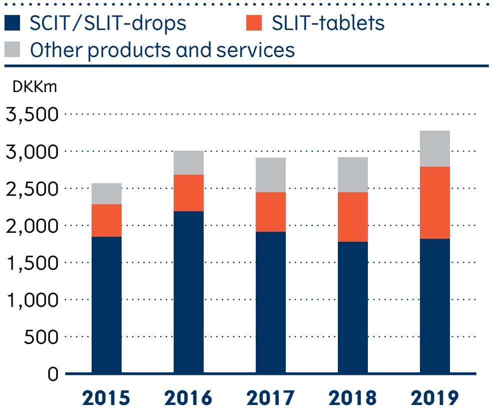
International markets

Revenue from International markets was up 112% in local currencies at DKK 237 million (112). Growth was largely attributable to a strong performance from the tablet portfolio, most notably in Japan, but there was sales growth in all markets, including south-east Asia, the Middle East and Australia. In China, sales were initially down, due to the phasing of shipments, but recovered in the second half of the year to register double-digit growth for the full year.

5-year total revenue by geography



5-year total revenue by product line



Financial review of 2019

(Comparative figures for 2018 are shown in brackets. Revenue growth rates are stated in local currencies, unless otherwise indicated)

2019 revenue increased by 12% in reported currency to DKK 3,274 million (2,915). Exchange rate fluctuations positively impacted reported revenue by 1 percentage point. Growth in local currencies of 11% was in line with the latest outlook, issued on 7 November 2019.

Cost of sales increased 6% in local currencies and 8% in reported currency to DKK 1,382 million (1,282). The gross profit of DKK 1,892 million (1,633) yielded a gross margin of 58% (56), reflecting increased sales – especially from tablets, with higher volumes absorbed by existing capacity – but also significant costs associated with compliance, efforts to secure robustness in product supply, and implementation of the product and site strategy. Increased shipments of tablets at a lower gross margin to ALK's partner for Japan lowered reported gross margin by approximately 1 percentage point.

Capacity costs increased 8% in local currencies and 9% in reported currency to DKK 1,922 million (1,756). R&D expenses increased by 19% (18% in local currencies) in line with expectations, reflecting increased expenses for clinical trials in 2019. Sales and marketing expenses grew by 6% (5% in local currencies), reflecting support for the tablets, including new launches and market expansion activities, as well as the cost of developing digital patient engagement platforms. Sales and marketing expenses also include significant investments in activities in the USA as well as certain one-off items. Administrative expenses increased 8% (7% in local currencies), largely as a consequence of strengthening selected support functions and certain one-off items.

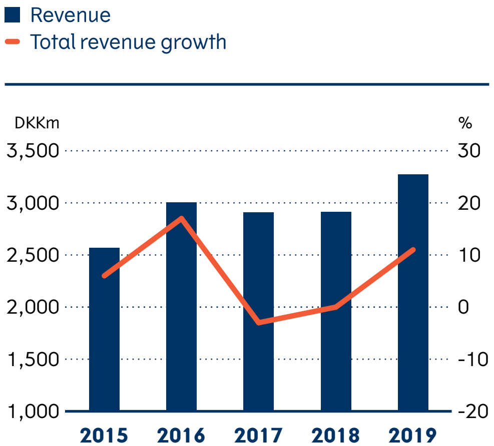
2019 guidance history

DKK	2018 actual	2019E 7 Feb	2019E 9 May	2019E 13 Aug	**2019E 7 Nov**
Revenue	2.9bn	3.1-3.3bn	Tracking towards higher end of range	3.2-3.3bn	**3.2-3.3bn**
EBITDA	136m	100-200m	Tracking towards higher end of range	150-200m	**200-250m**
Free cash flow	(294)m	~(400)m	~(400)m or better	~(300)m	**~(200)m**

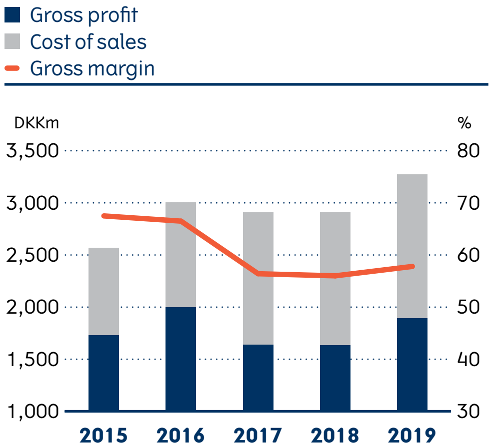
EBITDA (operating profit before depreciation and amortisation) of DKK 241 million (136) was at the upper end of the most recent outlook, reflecting revenue development, better margins, efficiencies

Continues

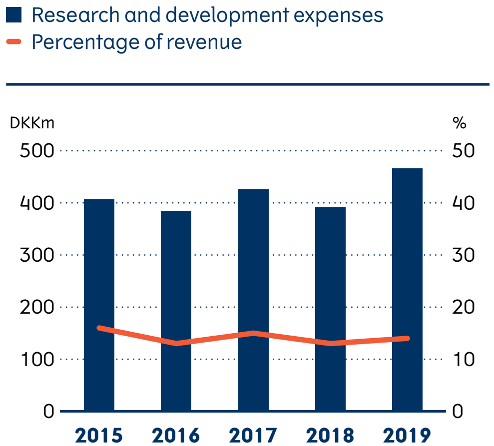
Revenue



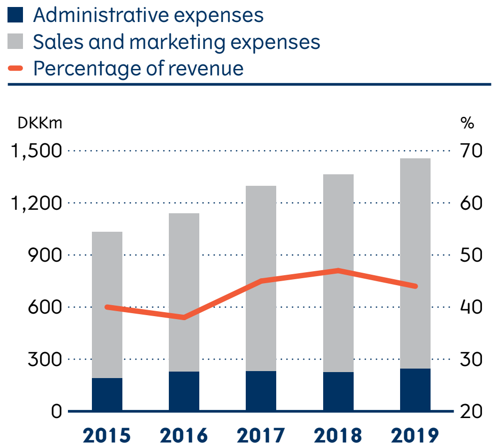
Gross profit



Research and development



Sales, marketing and administration



and savings. Exchange rates did not materially affect operating profits.

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

Cash flow from operating activities was DKK 132 million (minus 95), mainly as a consequence of improved EBTIDA and lower tax payments. **Cash flow from investment activities** was DKK minus 157 million (minus 199), mainly relating to upgrades to legacy production and the build-up of capacity for SLIT-tablet production. This also included an inflow of DKK 29 million from the divestment of the US veterinary business. **Free cash flow** was DKK minus 25 million (minus 294) which was better than expected due to higher earnings, lower tax payments and the timing of investments and working capital payments.

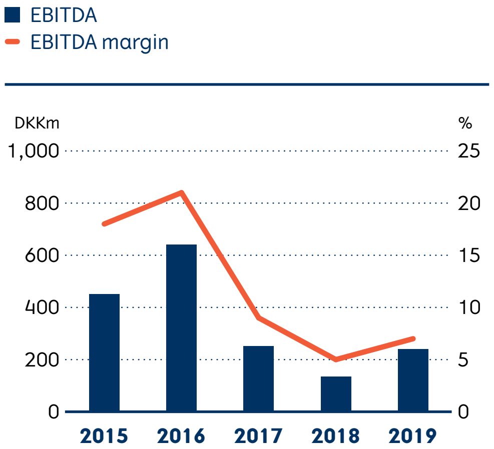
Cash flow from financing activities was DKK minus 57 million (minus 28), relating to the repayment of lease liabilities and borrowings, and the settlement of incentive programmes.

At the end of December, ALK held 240,694 of its own shares or 2.2% of the share capital, versus 2.4% at the end of 2018.

At the end of December, **cash and marketable securities** totalled DKK 316 million, versus DKK 396 million at the end of 2018. In addition, ALK has an unused credit facility of DKK 600 million which runs until the end of 2022.

Equity totalled DKK 3,176 million (3,179) at the end of the period, and the equity ratio decreased to 58% (65%) mainly as a consequence of changes in accounting policies related to IFRS 16 (leases) and IFRIC 23 (uncertainty over income tax treatment) as well as other payables.

EBITDA



Q4 review

Strong final quarter delivers results in line with most recent outlook
ALK closed 2019 with a further quarter of positive results, again delivering broad-based growth from across its regions.

Highlights
- Total revenue was up 11% in local currencies at DKK 883 million (787)
- Tablet sales grew 48% to DKK 269 million (182)
- Combined SCIT and SLIT-drops sales were up 4% at DKK 501 million (476) as the recovery of SCIT sales continued
- Sales of Other products declined 15% to DKK 113 million (129) following further normalisation of Jext® sales and the effects of portfolio rationalisation, as well as continued fluctuations in sales of non-allergy-related products in North America

Q4 key sales trends
In **Europe**, tablet sales were up 36%, driven by the continued uptake of ACARIZAX® and the ongoing strong introduction of ITULAZAX®. Sales of SCIT and SLIT-drops declined slightly, mainly as a consequence of product discontinuations and continued market normalisation. Sales of Other products were down 27%, largely due to Jext® and product discontinuations.

In **North America**, tablet sales were up 44%, which was slightly behind expectations (see p16), whereas sales of bulk allergen extracts (SCIT) were up 11%. Sales of Other products and services declined 8%, largely due to continued fluctuating purchasing patterns for non-allergy-related products. In Q4, ALK divested its US veterinary business. Disregarding this, organic growth for North America was 6%.

Revenue from **International markets** grew by 201%, mainly due to the continued strong uptake of tablets in Japan and recovering sales in China following work to update ALK's import licence earlier in the year.

Q4 margin summary
Gross margin was 58% (55%), reflecting changes in the product mix, increased sales – especially from tablets – but also significant costs associated with compliance efforts to secure robustness in product supply, and the implementation of the product and site strategy.

Capacity costs decreased 1% (2% decrease in local currencies) despite a step up in R&D spend in support of clinical trials. Sales and marketing expenses included costs for restructuring activities in Italy (see p15). Disregarding one-offs, both in 2019 and 2018, sales and marketing expenses were down, reflecting the high level of marketing spend, particularly in the USA, in 2018. Administrative expenses were unchanged year-on-year.

EBITDA was DKK 48 million (10) and finished at the higher end of expectations due to sales performance. EBITDA includes other income of DKK 15 million (0) which is related to the divestment of the US veterinary business.

Income statement

Amounts in DKKm	Q4 2018	**Q4 2019**
Revenue	787	883
Cost of sales	353	368
Gross profit	**434**	**515**
Gross margin	***55%***	***58%***
Research and development expenses	140	149
Sales and marketing expenses	337	325
Administrative expenses	65	65
Other operating income	27	14
Operating profit/(loss) (EBIT)	**(81)**	**(10)**
Net financial items	(2)	(4)
Profit/(loss) before tax (EBT)	**(83)**	**(14)**
Tax on profit	63	15
Net profit/(loss)	**(146)**	**(29)**
Operating profit before depreciation and amortisation (EBITDA)	**10**	**48**

Revenue by geography

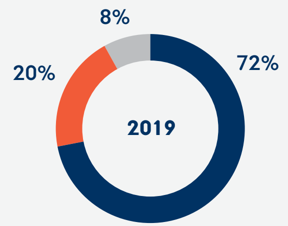
DKKm	**Q4 2019**	**Growth (l.c.)**	Share of revenue	2018
Europe	638	6%	72%	602
N. America	173	5%	20%	161
Intl. markets	72	201%	8%	24
Revenue	**883**	**11%**		**787**

Revenue by product line

DKKm	**Q4 2019**	**Growth (l.c.)**	Share of revenue	2018
SCIT & SLIT-drops	501	4%	57%	476
SLIT-tablets	269	48%	30%	182
Other	113	-15%	13%	129
Revenue	**883**	**11%**		**787**

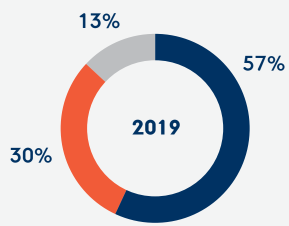
Revenue by geography

Europe
North America
International markets



Revenue by product line

SCIT/SLIT-drops
SLIT-tablets
Other



Strategic transformation

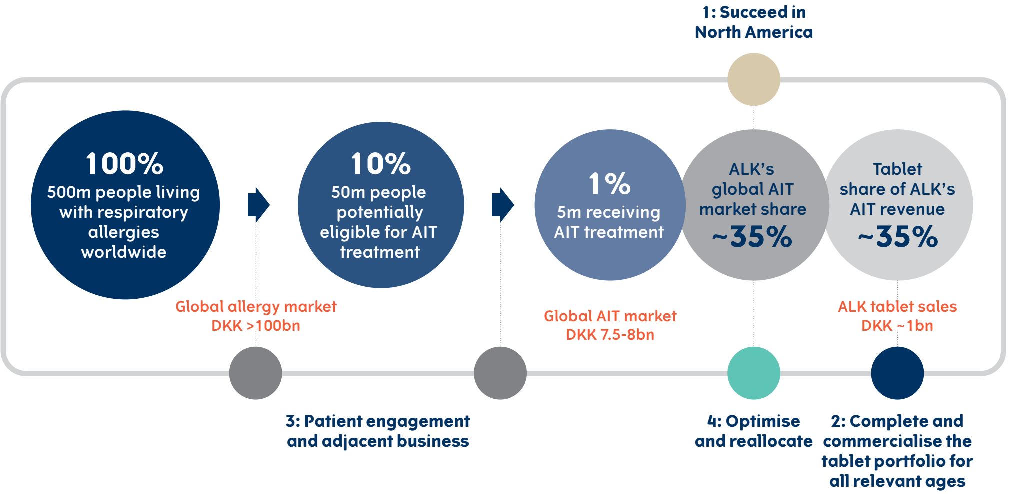
ALK's transformation and strategy

In December 2017, ALK announced a three-year transformation programme and strategy designed to establish a broader presence in the allergy market and stimulate a new period of sustained growth.

There are four areas of focus for the transformation and strategy: to succeed in North America; to complete and commercialise the tablet portfolio for all relevant ages; patient engagement and adjacent business opportunities; and optimise and reallocate resources. Progress on each of these is reported on the following pages.

Four focus areas

ALK's transformation period spans three years, and aims to fundamentally change the company's revenue and earnings profile. It identifies four areas of focus, success in each of which is essential to unlocking the broader opportunities in the allergy market:



Status of financial ambitions

In December 2017, ALK announced a range of financial indicators for the transformation period. These were:

- An ALK capable of delivering sustainable high revenue and earnings growth
- Revenue growth of ≥10% annually after 2018
- Raise margins as quickly as possible to specialty pharma levels after 2020 to EBITDA of ≥25%

Based on the guidance for 2020 (see p11) and other projections, ALK's financial performance over the three-year transformation period is expected to exceed these original expectations. This is attributable to higher than expected sales – especially for the tablets – the faster than expected capture of efficiencies and savings, as well as the market transition in favour of documented, registered products.

As a result, progress on the key financial indicators for the transformation period is as follows:

Financial indicators 2018-2020*	Status including 2020 guidance
Organic revenue growth of **≥10% p.a. after 2018** on the basis of ~DKK 2.7 billion in 2018	2018 revenue realised at DKK 2.9 billion; 11% organic growth realised in 2019; 8-12% organic growth guided for 2020
Annual R&D costs of **DKK 400-600 million**	DKK 392 million realised in 2018 and DKK 466 million in 2019. ~DKK 600 million guided for 2020
Subdued earnings (EBITDA)	Accumulated EBITDA of DKK 627 million in the three-year period (including midpoint in 2020 guidance) exceeds original expectations
Accumulated negative cash flow of **~DKK 1 billion** to fund business investments	Accumulated negative cash flow of ~DKK 600 million for 2018-2020, including guidance for 2020

* As stated in the 2017 transformation and strategy announcement.

Succeed in North America

ALK has invested in its North America operations, establishing the infrastructure that is essential for driving sales growth from its portfolio of tablets and other products.

2019 progress

In 2019, organic sales growth was broadly in line with ALK's target of 10% in North America, despite a shortfall in sales of non-allergy-related life science products. This aside, ALK delivered broad-based sales growth from across its allergy portfolio – bulk allergen products (SCIT), tablets, and diagnostics. Tablets in North America accounted for approximately 1 percentage point of ALK's global growth.

Sales of ACARIZAX® / ODACTRA®, which is central to the company's goal of establishing the wider tablet franchise in North America, continued to grow, albeit from a low level. On the key parameter of building the prescriber base, ALK roughly doubled the number of prescribers that meet internal benchmarks for satisfactory prescription depth.

In absolute terms, tablet sales are still modest, underlining the fact that establishing this franchise in North America will be a long-term endeavour with considerable potential upside.

Continued investments mean that ALK has now established infrastructure in North America to support the tablet portfolio – including sales, market access and medical affairs capabilities – and continues to develop its expertise in unlocking market barriers.

Given the size of the region, ALK's efforts to increase acceptance among payers and prescribers, and to mobilise patients, have necessarily been focused on several major population centres. This is to ensure the greatest return on investment and to allow a more intense focus on sales force excellence which might otherwise be diluted by a more widely distributed presence.

Acceptance of the tablets continues to show improvement in both the USA and Canada, and 2019 saw increases in the overall number of prescribers (breadth), prescriptions (depth) and treatment initiations of patients who were new to tablets. However, revenue from tablet sales was slightly lower than expected due to promotional activities, such as rebates and coupons.

Access to reimbursement for ODACTRA® remains satisfactory, with coverage for 76% of AIT-eligible patients with commercial insurance in the USA and more than 80% for ACARIZAX® in Canada.

Continues

A new tool to support informed treatment choice

The internet and other digital tools are increasingly important for informing people about their condition and potential treatment options. As a result, by the time they consult a doctor, today's patients are often much more ready to engage with doctors on which treatments best suit their preferences and needs – leading to a wider adoption of what is known as the 'shared decision model' (SDM) within medical practice.

To ensure these discussions are handled objectively and consistently, ALK is working with the American College of Allergy, Asthma and Immunology (ACAAI) to support the creation of the first-ever SDM tool specifically designed for allergy immunotherapy patients.

The US market has long been dominated by SCIT allergy shots, the discomfort and inconvenience of which can represent a significant barrier that prevents many patients from beginning treatment. The new SDM tool includes ALK's FDA-approved SLIT-tablets alongside better-known SCIT treatment options, facilitating a structured dialogue so that both doctor and patient can reach a shared treatment decision together.

Plans to upgrade the penicillin diagnostics offering in North America are awaiting the outcome of discussions between the US Food and Drug Administration and ALK's partner.

2020 priorities

For 2020, ALK is targeting overall sales growth in North America of approximately 10%. Growth is expected to come from across its allergy portfolio, as the company remains committed to building a broad-based allergy solutions business in the region. A key element of this will be establishing a growing demand for evidence-based, registered AIT products.

Work to grow sales of the tablet portfolio will continue to focus on driving momentum for ACARIZAX®/ODACTRA® with the goal of further increasing the breadth of the prescriber base while also growing the number of prescribers with satisfactory prescription depth.

Meanwhile, the next stage of building broader acceptance for the tablets will involve working more closely with both payers – the managed care organisations – and patients in the USA. With payers, ALK will promote the case for evidenced-based treatments in caring for suitable allergy patients. While for patients, ALK will draw on its European experience to launch a digital patient engagement platform for the first time in North America.

R&D

ALK's R&D organisation continues to support the growth drive in North America, principally via its efforts to complete and commercialise the tablet portfolio (see p24).

ALK has agreed with the US FDA that a single, new, safety trial involving 250 adolescent patients will be sufficient for ALK to submit an application for an adolescent allergic rhinitis indication for ODACTRA®. At the same time, ALK is progressing with the two paediatric trials for ACARIZAX®/ODACTRA® in Europe and the USA, covering allergic rhinitis and allergic asthma.

ALK also submitted the registration file for the tree tablet in Canada during 2019 and is targeting a 2020 approval and launch.

Reminder: Strategic priorities 2018-20

- The ongoing launches of ACARIZAX®/ODACTRA®
- Leverage ACARIZAX®/ODACTRA® market penetration to benefit GRASTEK® and RAGWITEK®
- A commercial approach focusing on high-frequency interactions with the most relevant allergists
- Partnerships with managed care organisations to demonstrate health economic benefits
- Patient support programmes to ensure affordable treatment initiation and successful treatment adherence
- A digital engagement strategy that shares ALK's allergy expertise and offers people with allergy a relevant portfolio of treatment options
- Inclusion of US patients in multi-year clinical trials in children with allergic asthma and allergic rhinitis
- Grow the value of the North American legacy business, covering bulk allergen extracts (SCIT), penicillin diagnostics and other products

2020 key metrics

~10%

sales growth from ALK North America, with sales growth across the entire allergy portfolio

Increase prescription depth among targeted prescribers

Launch ITULAZAX® in Canada, subject to approval

Launch ALK's digital patient engagement platform in North America

Complete and commercialise the tablet portfolio for all relevant ages

Work to complete clinical development of a tablet portfolio covering five of the world's most common respiratory allergies continues at pace. Tablets for each of these allergies – house dust mite, grass, tree, ragweed and Japanese cedar – have all been launched and efforts are now focused on securing further registrations and broadening existing approvals to cover more indications and patient groups. In particular, the expansion of labelling to cover paediatric patients has the potential to be an important driver of future growth, as evidenced in markets where this has already been secured.

2019 progress
ALK's tablet portfolio made further strong progress in 2019 with 45% sales growth over the previous year, so that tablets now represent 30% of ALK's total sales. ALK continued to take advantage of ongoing market expansion and the general shift in favour of documented, registered AIT products.

The house dust mite tablet ACARIZAX® (branded ODACTRA® in the USA, MITICURE™ in Japan) remained the principal driver of growth and, by the end of 2019, more than 200,000 patients were estimated to have been initiated onto treatment with this product since launch. Further regulatory approvals in south-east Asia – where it is sold under licence by Abbott – mean that this important product is now approved in a total of 30 markets. Meanwhile, sales of GRAZAX® (branded GRASTEK® in the USA) continued to grow in the high single-digits.

In June, ALK secured European approval for ITULAZAX®, its tablet for the treatment of tree pollen-induced allergic rhinitis. This was followed in September by ALK's best ever new product launch in Germany (see right) and, by year-end, the product had been formally launched in three markets. Also in June, a registration application for ITULAZAX® was accepted for review in Canada and this is currently in progress.

Initial uptake of ITULAZAX® has been very encouraging, with demand in Germany outpacing that of any previous product launch, including ACARIZAX®. By year-end, approximately 10,000 patients in Europe had begun treatment with ITULAZAX®, with highly encouraging feedback from prescribers citing the efficacy and simplicity of treatment as positive product features.

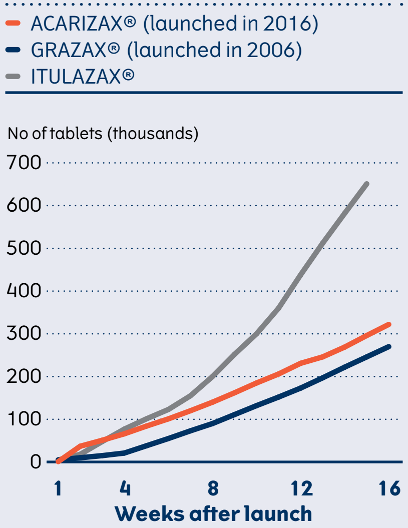
Continues

The launch of ITULAZAX®

ITULAZAX® is ALK's new SLIT-tablet for the treatment of tree pollen allergy. The product was first launched in Germany – which will be its most important European market – during Q3 following a June regulatory approval covering 17 European countries. The launch proved to be ALK's best ever for a SLIT-tablet, with strong take-up, and a positive response from patients and prescribers alike.

The sales trajectory also provided a useful measure of how much Germany's allergy market has been transformed since the launch of GRAZAX® in 2006, and ACARIZAX® in 2016. The table to the right shows the adoption rate for all three tablets in their first four months on the market. The trend for ITULAZAX® clearly illustrates the effect of years of advocacy on behalf of the tablets and the resultant, improved market access in 2019.

Initial launch trajectory in Germany*



* In Germany, the prevalence of tree and grass allergies is similar, while house dust mite allergy is less prevalent.

Clinical trials 2019-21

Product and market	Patient type
HDM SLIT-tablet, Europe and the USA	Paediatric allergic asthma
HDM SLIT-tablet, Europe and the USA	Paediatric allergic rhinitis
HDM SLIT-tablet, China	Adult allergic rhinitis
HDM SLIT-tablet, the USA	Adolescent allergic rhinitis
Ragweed SLIT-tablet, the USA	Paediatric safety (deferred in agreement with the US FDA)
Tree SLIT-tablet, Europe	Paediatric allergic rhinitis

In Japan, sales of MITICURE™ and the Japanese cedar tablet, CEDARCURE™, by ALK's partner Torii, continued their strong growth trajectory, as sales continued to be boosted by the 2018 addition of paediatric indications for both, as well as the conversion of existing patients from older SLIT-drops products to the CEDARCURE™ tablet.

In late 2019, ALK began making its ragweed tablet, RAGWIZAX®, available in selected European markets as well as in Russia. The product has been available in the USA and Canada as RAGWITEK® for several years, but ragweed allergy has become increasingly prevalent in some parts of Europe over recent years and the product could be an important treatment option for some of these patients. Also, in Q4, ALK submitted applications to cover paediatric use of the ragweed tablet in Europe and Canada following the successful outcome of a large-scale clinical trial in North America and Europe, which involved over 1,000 children.

ALK also began expanding its geographical footprint during 2019 in eastern Europe and Russia, and continued its preparations in anticipation of launching ACARIZAX® in China, potentially in 2023.

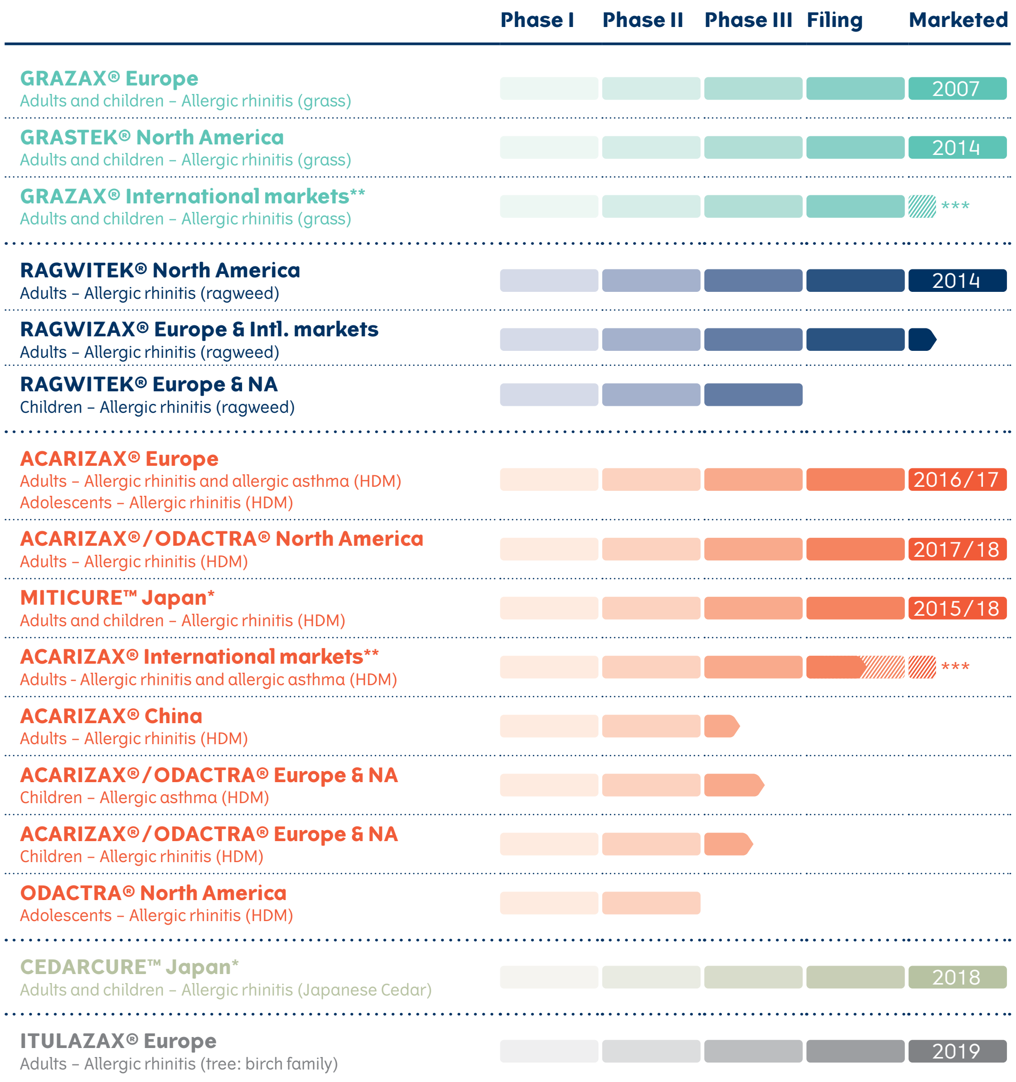
2020 priorities

With a tablet range that now covers five of the world's most important respiratory allergies, the majority of ALK's focus will be directed towards their successful commercialisation, with the company targeting more than 30% sales growth from these products in 2020.

As well as supporting the ongoing launch of ITULAZAX®, ALK continues to gather data for new market entries and expanded

Continues

ALK's R&D pipeline



* Licensed to Torii for Japan
** Licensed to Abbott for south-east Asia and Seqirus for Australia/New Zealand
*** Already marketed in selected markets

indications for the tablets, primarily ACARIZAX® / ODACTRA®. ALK is also targeting a regulatory approval for ITULAZAX® in Canada during 2020.

Clinical development and commercial planning for the introduction of ACARIZAX® in China will continue in 2020. This work is important because China is already one of the world's largest markets for house dust mite AIT treatments but it still has the potential to become significantly larger. As part of this work, ALK is conducting a local small-scale Phase III trial. As of publication of the annual report, it was unclear how this might be affected by the ongoing coronavirus outbreak. Another key focus for 2020 will be the two ongoing paediatric trials for ACARIZAX® / ODACTRA® in Europe and the USA, which cover allergic rhinitis and allergic asthma.

R&D

The completion and commercialisation of the tablet portfolio remains the primary focus of ALK's R&D efforts so that the potential of these major assets can be fully realised. The full extent of current clinical development commitments can be seen in the table opposite, while overall progress towards commercialisation is shown in the R&D pipeline on the previous page. In addition, the company is conducting very early research into innovative solutions for high-impact allergic conditions. In December, ALK signed a research collaboration agreement with US-based X-Chem which, if successful, could strengthen the future R&D pipeline with products that would be complementary to the existing portfolio of AIT products.

Reminder: Strategic priorities 2018-20

Product	Clinical initiatives	Commercial initiatives
ACARIZAX® / ODACTRA® / MITICURE™	• Global paediatric trials in allergic rhinitis and allergic asthma • Paediatric use in Japan added • Late-stage development in China • Post-marketing surveillance studies in the USA	• Launches in additional markets in Europe and selected international markets • Launch in Japan for paediatric use, with other markets to follow
GRAZAX® / GRASTEK®	• Post-marketing surveillance studies in the USA	• Launches in Australia, eastern Europe and Russia • Leverage data from GAP trial to build sales
RAGWIZAX® / RAGWITEK®	• Paediatric safety trial in the USA (deferred in agreement with the US FDA) • Post-marketing surveillance studies in the USA	• Launches in selected markets outside North America
ITULAZAX®	• Submissions in Europe, Canada and possibly beyond • Efficacy and safety trial in children in Europe	• Launches in Europe, Canada and possibly beyond
CEDARCURE™		• Launch in Japan
Other		• Launch new tools to help improve treatment adherence

2020 key metrics

>30%

sales growth from the tablet portfolio

Successful launch for ITULAZAX® in Europe

Secure regulatory approval for the tree tablet in Canada

Execute ongoing clinical trials in Europe, the USA and China

Patient engagement and adjacent business

ALK is working to support people with allergy much earlier in their disease journey by engaging with them, informing and mobilising them to seek treatment. It is doing this through a consumer-focused ecosystem of information resources, services and products that smooth the path to treatment and complement ALK's core AIT portfolio.

2019 progress

During 2019, digital patient engagement activities in ALK's pilot consumer markets, Germany and the UK, provided invaluable insights that are helping to shape the engagement strategy as well as plans for future expansion.

ALK substantially exceeded its 2019 key metric goals, registering 162,000 downloads of the klara app (see right), 170,000 online allergy tests taken, and 57,000 online searches for an allergist. During the year, an estimated 105 million messages were seen via ALK's klarify.me web resources.

ALK also piloted sales of allergy-related products online and via selected pharmacies in Germany and the UK, which provided useful learning experiences. The company will build upon these in 2020 as it sharpens its focus on a narrower range of activities that are more closely aligned with ALK's primary goal – that of smoothing the path to allergy testing and treatment.

The financial contribution of the new consumer care portfolio and adjacent products and services remains negligible, reflecting the very early stage of these activities. Nevertheless, ALK continued to identify and secure adjacent business opportunities in 2019, most notably a next-generation adrenaline auto-injector in partnership with Windgap Medical. Development work on this continues ahead of a decision on the potential timing of a registration application to the US FDA.

2020 priorities

In 2020, ALK's digital engagement strategy will draw on the lessons learned in the two pilot markets, and will be rolled out to several new markets, including the USA.

A key aim will be to further develop the digital engagement business model and to give it a narrower focus that is more closely linked to the commercialisation of ALK's AIT portfolio.

The consumer care business model has three clear elements – to successfully engage with allergy sufferers on a large scale, identify which of them would be suitable for – and might benefit from – AIT treatment, and then to mobilise them into taking action. At the

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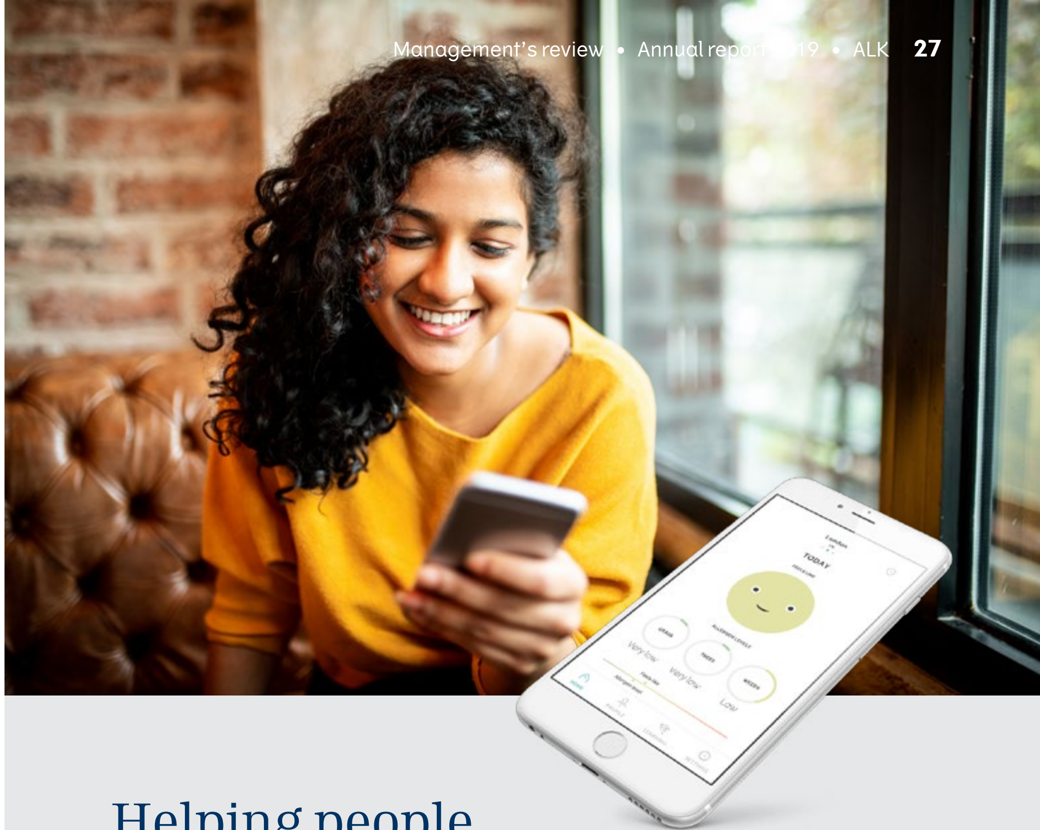


Helping people to manage their allergies

Klara is a smartphone app that helps users track and manage their pollen allergy. Launched in Germany and the UK in 2018, it provides personalised allergy information including accurate pollen counts, forecasts for all pollen types – such as grass, weeds and trees – and the latest air quality readings.

The app is part of ALK's digital engagement strategy and is connected to a range of resources, branded klarify.me, which include information about allergies, how to manage them, and tools designed to help diagnose allergies and to connect users with doctors who can prescribe a suitable treatment. It also links to ALK's e-commerce universe which offers a range of allergy-related products and services.

To date, the app has been downloaded more than 162,000 times and, in 2020, will be at the forefront of expanding ALK's digital engagement platform into new markets, including the USA.

same time, ALK will, to the extent acceptable from a compliance perspective, channel consumer and market insights into its customer relationship management (CRM) system so that its sales force can better engage with prescribers on the issue of unmet medical need in allergy treatment.

One important success factor will be ensuring access to appropriate allergy testing and diagnosis tools and services, and ALK will be working to develop new partnerships to support this, with the aim of further simplifying the path to AIT treatment, which is currently complex and represents a significant barrier for patients.

ALK will also continue its search for suitable adjacent business opportunities which advance its ambition of becoming more relevant to a wider number of allergy sufferers around the world.

Reminder: Strategic priorities 2018-20

- Establish consumer care division to drive digital patient engagement
- Use digital platforms to offer solutions for early allergy intervention, symptom alleviation and relief
- Explore expansion of ALK's portfolio with other relevant products
- Expand the anaphylaxis franchise in Europe and deliver an anaphylaxis strategy for the USA

2020 key metrics

Launch digital engagement tools to cover up to 10 markets, including North America

Establish new, two-way consumer relationships and mobilise 100,000 people to take action* on their allergy

Leverage patient engagement data to support AIT commercialisation

* 'Find a Doctor', coupon downloads, visits to doctors and more.

Optimise and reallocate

Optimise and reallocate is a wide-ranging programme to improve quality and robustness at ALK while also generating savings that can be re-invested in the push for improved sales and margins. A key part of these efforts is the product and site strategy, which focuses on significant portfolio rationalisation, complexity reduction in manufacturing, greater robustness in product supply, as well as development work to support core legacy products.

2019 progress
The ongoing rationalisation of the product portfolio was accelerated in 2019 and, so far, more than 300 older, unsustainable products are being phased out in favour of documented, registered products. Some benefits from these discontinuations are immediate, however, others will come later as ALK continues to meet all necessary stability and quality monitoring requirements until the in-market stocks reach the end of their shelf life.

Meanwhile, ALK continued to invest in strengthening the regulatory documentation for selected core legacy products. One example of this was the amended approval for Alutard SQ® in Germany (see right), secured in 2019, which allowed a shorter updosing phase in response to patient and prescriber preferences.

Upgrades took place across ALK's manufacturing network. These included investments to upgrade the aseptic preparation and filling area in Hørsholm, Denmark, as well as a multi-year modernisation programme for ALK's Port Washington facility in the USA, which produces a large number of bulk allergens for the US market. The move towards greater specialisation at production facilities, such as consolidating all European SCIT production at one site – down from three – also continued.

Further efficiency measures include the 'Fit for Growth' programme, which identifies efficiency gains, such as using standardised procurement processes to consolidate the number of suppliers ALK uses, as well as to negotiate improved terms of business.

Progress on quality was highlighted when, in Q2, France's National Agency for Medicines and Health Products Safety (ANSM) lifted its 2017 injunction against ALK. The company's compliance credentials were further underlined by the 10 regulatory inspections of seven facilities in five countries that were carried out during the year.

With the exception of Jext® – demand for which is being distorted by ongoing disruptions in the adrenaline auto-injector market – general

Continues

Investing in the core legacy portfolio

Alutard SQ® is a SCIT treatment whereby regular tiny doses of allergen are injected under the skin. It is administered by a doctor and doses are gradually increased to build up immune system tolerance until a maintenance dose is achieved – a process known as 'updosing'.

In 2019, following a new clinical trial, ALK announced that it had secured an amended regulatory approval in Germany for Alutard SQ®, allowing a shortened updosing regimen for the product. As a result, patients in Germany now only require seven treatments before reaching a maintenance dose, down from 11-16 treatments previously – something that prescribers had been asking for, and which enhances the product's competitiveness for the future.

Alutard SQ® was first approved in Germany in 1990. It has since become one of the most documented SCIT treatments on the market, and has been the subject of more than 150 scientific publications. Today, the product is authorised in 25 countries worldwide. For now, this amended approval, which covers product variants for house dust mite, grass pollen and tree pollen allergies, is specific to Germany, however ALK is working towards similar applications in other markets.

inventory levels returned to satisfactory levels in 2019 and back-orders ended 2019 at a low level.

ALK further reduced complexity when it made two divestments for a total consideration of DKK 124 million, of which DKK 53 million was recognised in 2019: the US veterinary business, which was sold to Nextmune at the end of 2019, and a part-share in a tablet formulation production line, which was sold to manufacturing partner Catalent in June.

2020 priorities

ALK's efforts to date have delivered significant results and the priority for 2020 is to ensure that this momentum is maintained so that the benefits that have been realised set a new baseline from which to identify and implement further improvements.

In 2020, key activities will include further upgrades to the aseptic preparation and filling area in Hørsholm, and the generation of further regulatory documentation to support efforts to reduce the number of active pharmaceutical ingredients (APIs) that ALK manufactures. This work will see products that contain multiple individual allergens replaced by equivalents that contain a single, cross-reacting species. For Alutard SQ® alone, this will see the number of APIs reduced by around two-thirds, with a consequent long-term benefit for manufacturing efficiency and complexity. However, for the next couple of years, this project will involve significant work and costs for ALK's development, production and regulatory teams.

Another area where optimisation efforts will deliver tangible benefits is the work to improve manufacturing yields. For example, ALK is improving efficiency in the production of house dust mite allergenic source materials by optimising mite growth conditions and minimising yield loss during purification and processing. As a result, mite manufacturing yields are expected to be considerably more efficient.

ALK is also working to refine its sales and marketing approach, ensuring that processes are optimised and resources are directed to areas with the greatest growth potential so that ALK can generate a greater sales return per unit of investment.

R&D

In a highly-regulated industry such as pharmaceuticals, initiatives such as upgrading products to improve their competitiveness – as in the case of Alutard SQ® in Germany – or the work to consolidate the number of APIs produced for ALK's products, require a significant amount of support from the R&D organisation, which must document and register every change to ensure each product's marketing authorisation remains valid. During 2019, ALK submitted a total of 1,883 regulatory changes covering 61 products to 37 different regulatory authorities around the world and this work is expected to continue at a similar level in 2020.

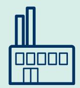
Reminder: Strategic priorities 2018-20

- Accelerate portfolio and site strategy
- Increase production yields
- Improve efficiency of production processes and overall flow
- Assess the potential for increased automation

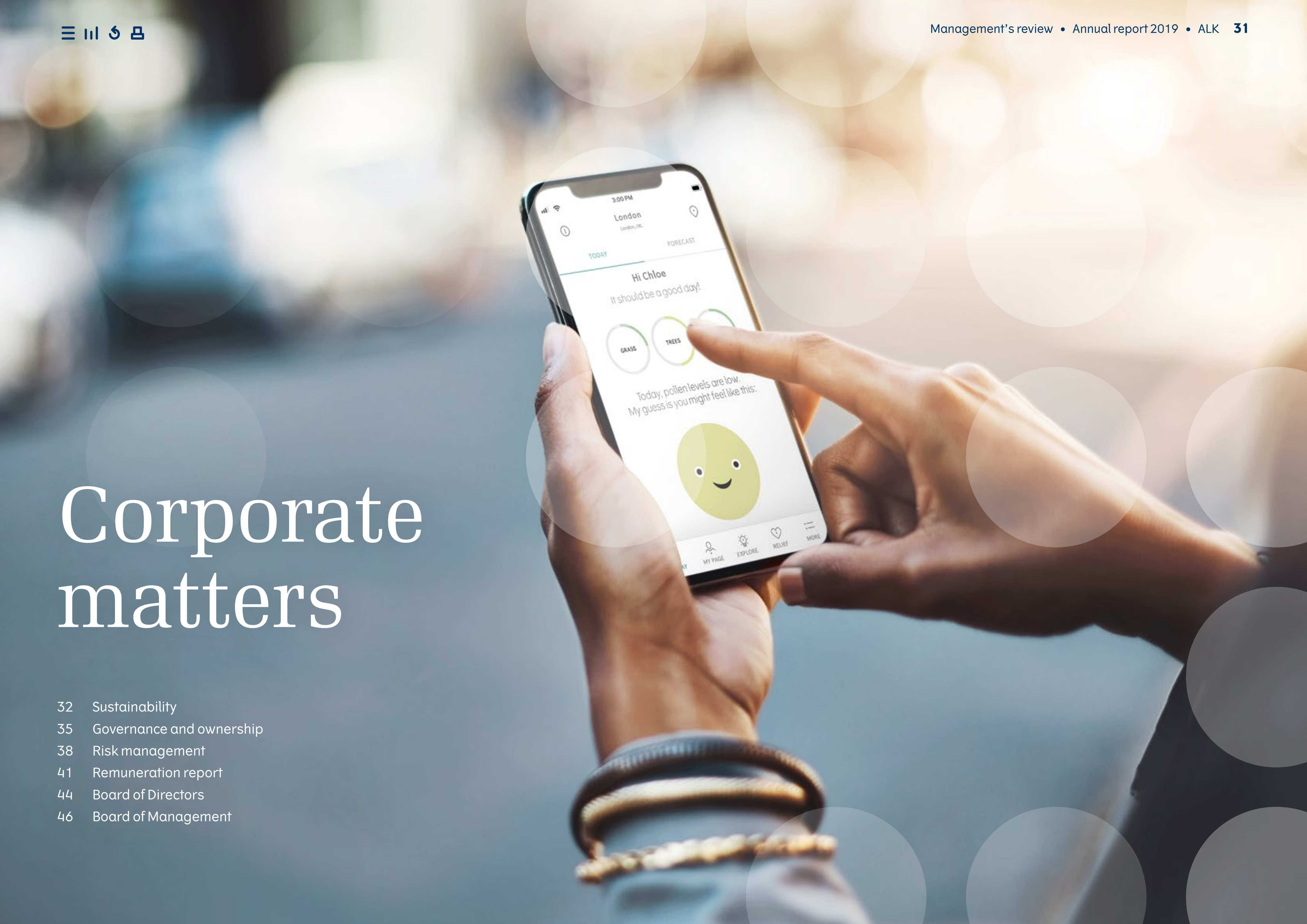
2020 key metrics

Continue accelerated portfolio rationalisation programme to reduce complexity

Maintain quality, robustness and scalability in manufacturing



Leverage production efficiency to improve long-term margins



Corporate matters

Sustainability

ALK's statutory report on non-financial key figures for the financial year 2019, pursuant to sections 99a and 99b of the Danish Financial Statements Act, is available at https://www.alk.net/sustainability. The report provides a detailed account of sustainability policies, actions and results at ALK. The page opposite provides a summary of key policies and initiatives.

ALK's approach

ALK has a long-standing commitment to act responsibly. For more than 10 years, it has been guided by the United Nations' Global Compact principles, and in 2019, the company affirmed its commitment to these by becoming an active signatory of the UN Global Compact.

In addition, ALK is contributing to the UN 2030 Agenda for Sustainable Development and is especially engaged in contributing to discussions on the following four UN Sustainable Development Goals, which are deemed of particular importance to ALK due to the nature of its business and its strategic aspirations:

3 GOOD HEALTH AND WELL-BEING

We contribute to healthy lives and promote well-being for patients and our employees at all ages

8 DECENT WORK AND ECONOMIC GROWTH

We work systematically to improve the working environment in all parts of our organisation and to promote safety at work

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We support a precautionary approach to environmental challenges and continuously seek to use natural resources efficiently

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We work to reduce corruption and bribery in all its forms

Continues

Progress

In 2019, progress was made in all focus areas (see page 34 for key figures):

Environmental

Several projects were initiated to explore ways to reduce resource consumption, resulting in both a reduction in emissions and financial benefits. In one of these projects switching from aeroplanes to ships as a mode of transportation for tablets reduced the overall environmental impact while reducing costs. In addition, ALK continues to explore ways to reduce the use of plastics as packaging material.

Social

At global employee meetings, named Spirit Days, employees were invited to help define what an attractive workplace of the future might look like. Their input will be used to inform new projects and initiatives within key areas such as communication, personal development and work-life balance. A new tablet product was also introduced, allowing more people access to easy and convenient allergy treatment.

Governance

In an effort to make ALK's global policies and procedures easier to read and follow, a new Code of Conduct was developed. The Code of Conduct is made up of sections covering different themes such as anti-corruption and bribery, interaction with healthcare professionals, human rights and more.

Materiality assessment

To support its sustainability strategy further, ALK will conduct a materiality assessment in 2020 to identify those aspects with the highest impact on its business and stakeholders. The assessment will be based on a business analysis as well as input from relevant external stakeholders.

Corporate sustainability objectives and targets

Based on its commitment to the UN Global Compact, ALK has set these corporate sustainability objectives:

ALK promises

to build upon **its heritage as a pioneer in allergy immunotherapy** and bring allergy products and solutions to as many people around the world with allergy as possible.

to be a **workplace characterised by a caring and creative nature** where development, diversity, safety and work-life balance are seen as valuable assets.

to **take care of the planet** by taking actions that benefit the environment and the climate. ALK wants to set ambitious goals that bring positive change to the planet.

to continue to **drive and grow an ethical business** by being proactive promoters of high business integrity with the aim of helping as many people with allergy as possible.

These objectives have been translated as follows into specific corporate goals for the next few years:

2020

- We want to be **treating 2 million people** with our products
- We want women to make up **30% of functional managers**
- We want to reduce the Lost Time Injury Frequency to below **3 per 1 million hours** worked
- Energy and water efficiency considerations should be an **integral part of facility upgrade** plans
- At least **30% of all consumed energy** should come from renewable sources
- We aim to have **reduced CO_2 emissions by 25%** versus 2017
- We want at least **45% of our waste to be re-used**/recycled
- We want to test all employees annually on **business ethics**

2021

2022

- We want **women** to make up **30% of the shareholder-elected members** of the Board of Directors

Continues

Policies and guidelines

ALK has various policies and guidelines in place to ensure its everyday activities support the commitments it has made. These include policies on CSR, the environment, health and safety (EHS), human resources, diversity, as well as anti-corruption and bribery policies.

ALK also has an employee Code of Conduct which outlines the company's expectations when it comes to professionalism, honesty and integrity. ALK's managers are responsible for ensuring that each employee is familiar with the code and its importance.

Please refer to the full Sustainability Report 2019 for more information about ALK's sustainability governance, material aspects, targets and key performance indicators.

ESG key figures overview

	Unit	**2019**	2018	2017	2016	2015
Environmental data						
CO_2e scope 1	Tonnes	3,045	4,140	4,419	6,282*	7,830*
CO_2e scope 2	Tonnes	4,507	5,088	5,238		
Energy consumption	GJ	164,639	168,034	169,276	144,828	150,934
Renewable energy share	%	20	13	13	15	8
Water consumption	m^3	122,461	117,252	120,960	102,418	112,275
Social data						
Workforce**	Headcount	2,406	2,369	2,284	2,168	1,952
Gender diversity, percentage of women	%	63	62	62	62	64
Gender diversity, percentage of women at all management levels	%	47	46	47	48	46
Gender pay ratio of men to women	Times	1.13	1.12	1.16	1.23	1.19
Employee turnover ratio, voluntary and involuntary	%	11	11	12	11	-
Absence due to sickness	%	2.7	n/a	n/a	n/a	n/a
Governance data						
Gender diversity, Board percentage of shareholder-elected women	%	17	20	17	17	17
Board meeting attendance rate	%	97	98	96	97	98
CEO pay ratio***	Times	29	33	49	n/a****	24

* Prior to 2017, ALK did not collect scope 1 and 2 data separately
** Workforce means all employees at the end of the year (full-time, part-time and temporary)
*** The CEO pay ratio is calculated as CEO total compensation/median employee total compensation
**** In 2016, ALK did not have a CEO for the full year

Governance and ownership

Corporate governance

ALK's statutory corporate governance statement for the financial year 2019, pursuant to section 107b of the Danish Financial Statement Act, is available at https://ir.alk.net/financial-reporting/risk-management

Core data for the share

Share capital	DKK 111,411,960
Nominal value	DKK 10 per share
Number of A shares	920,760 units with 10 votes per share
Number of AA shares	92,076 units with 10 votes per share
Number of B shares	10,128,360 units with 1 vote per share
Stock exchange	Nasdaq Copenhagen
Ticker symbol	ALK B
Indices	CX4500 (healthcare), OMXCLCPI (LargeCap) and OMXCPI (all)
ISIN	DK0060027142
Bloomberg code	ALKB.DC
Reuters code	ALKB_CO
ADR ticker symbol	AKABY
LEI code	529900SGCREUZCZ7P020

The statement provides a detailed account of ALK's management structure including the Board of Directors' composition, activities, remuneration and self-assessment. The statement furthermore describes key elements of ALK's internal controls and risk management systems relating to financial reporting processes.

As a listed company, ALK is subject to the recommendations of the Danish Committee on Corporate Governance. ALK fulfils this obligation either by complying with its recommendations or by explaining the reason for non-compliance. ALK complies with 46 of the 47 recommendations. The only exception being that the majority of members of the Audit Committee are not independent. Rather, ALK has selected the best possible options in terms of experience and capabilities. The full Board of Directors' 'comply or explain' review is available at https://ir.alk.net/corporate-governance

At the annual general meeting in March 2019, Steen Riisgaard was re-elected Chairman of the Board of Directors and Lene Skole was re-elected Vice Chairman. Lars Holmqvist, Gonzalo De Miquel and Jakob Riis were re-elected as members of the Board of Directors and Vincent Warnery was elected as a new member of the Board of Directors.

As announced on 13 September 2019, Steen Riisgaard will step down as Chairman of the Board of Directors at the annual general meeting on 11 March 2020, when Anders Hedegaard will be proposed as his successor. Anders Hedegaard is CEO of German-based Rodenstock Group, a leading global manufacturer of ophthalmic lenses and spectacle frames, and he has broad managerial experience with global life science and consumer care companies.

Shareholder information

The aim is that the share price should offer a fair representation of ALK and reflect the company's actual and expected ability to create shareholder value. ALK would further like the share to be liquid and to have a sound foundation, allowing for fair pricing and trading in the share.

Continues

ALK share price up
70%
since 1 January 2019

ALK complies with
46 out of 47
of Danish corporate governance recommendations

Major shareholder
40.3%
The Lundbeck Foundation owns 40.3% of ALK's shares

ALK's statutory corporate governance statement for the financial year 2019, pursuant to section 107b of the Danish Financial Statement Act
Available at: https://ir.alk.net/financial-reporting/risk-management

The Board of Directors' 'comply or explain' review
Available at: https://ir.alk.net/corporate-governance

Ownership

The total share capital is divided into A shares, AA shares and B shares (cf. core data table on the previous page). The A shares and AA shares are not listed and are predominantly held by the Lundbeck Foundation, while all B shares are listed and freely negotiable. At the end of 2019, ALK had 12,979 registered shareholders, versus 13,658 at the end of 2018. The registered shareholders owned 98% of the share capital (97). As of 31 December 2019, two shareholders had notified shareholdings of 5% or more: the Lundbeck Foundation had a 40.3% interest (including A shares and AA shares) and ATP had an 8.8% interest. Of the 30 largest registered shareholders, the vast majority were institutional investors — from North America, the UK and Scandinavia in particular. In the shareholder register, the international ownership was estimated at approximately 23% (21), representing 36% of the free float of the B share capital (36), excluding the Lundbeck Foundation's holding and treasury shares.

ALK's holding of its own shares was reduced following the settlement of share option and conditional share programmes. At the end of the year, ALK held 240,694 or 2.2% of its own shares (2.4% at the end of 2018) which is considered sufficient to cover current obligations related to ALK's long-term incentive programmes.

Return and liquidity

ALK aims to provide long-term shareholder return through an increased share price, the paying-out of dividends and the purchase of its own shares. At the end of 2018, the share price was DKK 960 and the share closed 2019 at DKK 1,635. The daily trading liquidity improved further during 2019 and averaged DKK 20 million (17).

Major shareholders* and treasury shares as at 31 December 2019

Shareholder	Registered office	Number of shares	Interest	Votes
The Lundbeck Foundation	Copenhagen, Denmark	920,720 A shares 92,072 AA shares 3,474,827 B shares	40.3%	67.2%
ATP**	Hillerød, Denmark	984,603 B shares	8.8%	4.9%
ALK – own shares	Hørsholm, Denmark	240,694 B shares	2.2%	-

* Notified shareholdings of 5% or more of the company's shares ** The Danish Labour Market Supplementary Pension

Dividend and capital structure

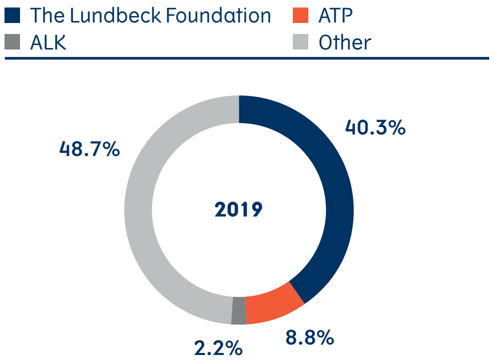
The Board of Directors considers that ALK's financial resources, including credit facilities, still constitute a sufficient financial basis for implementing the updated strategy and funding the expected negative free cash flow during the transformation period. In support of the strategy, the Board of Directors has temporarily suspended dividend payments. In line with this decision, at the annual general meeting in March 2020, the Board of Directors will propose that no dividend be declared.

The Board of Directors revisits the dividend policy and ALK's capital structure on an ongoing basis during the three-year transformation period.

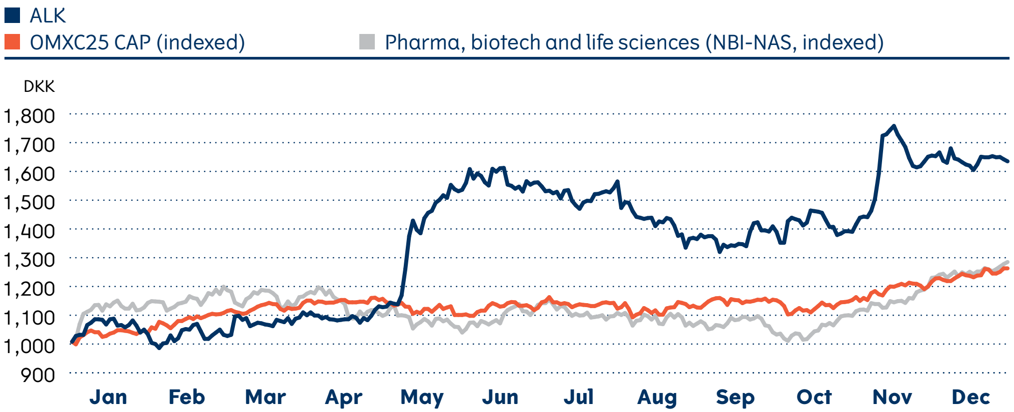
Investor relations

Based on its IR policy (https://ir.alk.net/corporate-governance/ir-policy), ALK seeks to provide timely, accurate and relevant information on matters of importance to the assessment of the share, including strategy, operations, performance, expectations, goals, pipeline, market development, and other matters. ALK continuously works to strengthen its dialogue with all financial

Shareholders as at 31 December 2019



The ALK share in 2019



Continues

stakeholders in accordance with good IR practice and the provisions for companies listed on Nasdaq Copenhagen.

Besides hosting regular telephone conferences, ALK representatives held approximately 300 individual meetings with analysts and investors in 2019 and also presented at various investor conferences.

During the year, ALK published 22 company announcements (16), including reports on transactions by managerial staff. All announcements are available on ALK's website together with reports, presentations, access to telephone conferences, share price information, estimates from the analysts following the share, and related information. Registered shareholders are encouraged to sign up at the InvestorPortal.

Governance at ALK

ALK has a two-tier management structure consisting of the Board of Directors and the Board of Management. The two boards are independent of each other.

The Board of Directors consists of nine members. Six members, including the Chairman and the Vice-Chairman, are up for re-election each year at the annual general meeting. Three members are employee-elected and serve four-year terms.

Financial calendar 2020

Annual general meeting	11 March
Three-month interim report (Q1)	6 May
Six-month interim report (Q2)	12 August
Nine-month interim report (Q3)	11 November

Find out more

Visit Investor Relations at
https://ir.alk.net/investors

Contact Investor Relations:
Per Plotnikof
Tel. +45 4574 7527

The Lundbeck Foundation

As one of the largest industrial foundations in Denmark, the Lundbeck Foundation lives its purpose every day through active ownership of its three subsidiaries and an annual spend of around DKK 500 million in grants to support biomedical research with a special focus on neuroscience. Founded in 1954 by the widow of the founder of the Danish pharmaceutical company, H. Lundbeck A/S, the Foundation is the largest and controlling shareholder of ALK, owning 67% of the votes (40% of the capital). In addition, the Foundation is the majority shareholder of two other large Danish companies, Lundbeck and Falck, and manages securities of about DKK 14 billion. The Lundbeck Foundation also invests in European and American life-science companies and supports a range of early-stage investment projects. Every year, the Foundation awards The Brain Prize, a personal research prize of DKK 10 million. The prize is awarded to one or more scientists who have distinguished themselves through an outstanding contribution to global neuroscience and who are still active in research. For further information on the Foundation, please visit www.lundbeckfonden.com.

The Lundbeck Foundation's business activities encompass three large subsidiaries, an international portfolio of 17 venture companies, a portfolio of seven biotech start-ups based on research from Danish universities, and management of securities valued at around DKK 14 billion.

www.lundbeckfonden.com

Risk management

ALK's Board of Management is responsible for the ongoing management of risk, including risk mapping, the assessment of probabilities and potential consequences, and the introduction of risk-reducing measures.

The Board of Management has established a risk committee to assist it in meeting its overall responsibility for risk management. The Risk Committee comprises representatives from each functional area relevant to ALK's risk profile. It meets twice a year or more, as required to perform its tasks. Risks are assessed according to a two-dimensional matrix, rating the impact and likelihood of each risk. A risk management report with key risks and recommended mitigation plans is submitted to the Board of Directors on an annual basis for their review and approval.

Research and development

Description

The future success of ALK depends on the Group's ability to maintain current products and successfully identify, develop and market new, innovative drugs, which involves significant risks. A pharmaceutical drug must be subjected to extensive and lengthy clinical trials to document qualities such as safety and efficacy before it can be approved for marketing. In the course of the development process, the outcomes of these trials are subject to significant risks. Even though substantial resources are invested in the development process, the trials may produce negative results.

Delays in obtaining regulatory approvals – or failure to obtain such approvals – may also have a major impact on the ability of ALK to achieve its long-term goals.

Risk mitigation

ALK and its collaborative partners perform thorough risk assessments of their research and development programmes throughout the development and registration processes with the objective of risk mitigation to optimise the likelihood of the products reaching the market.

In 2018, the Board of Directors updated the charter for the Scientific Committee to include responsibility for other patient/product related innovation activities. The committee advises on matters relating to R&D activities and other patient-/product-related innovation activities, including reviewing R&D programmes and the overall R&D pipeline.

Patents and intellectual property rights

Description

Patents and other intellectual property rights are important for developing and retaining ALK's competitive strength.

Risk mitigation

The risk that ALK might infringe patents or trademark rights held by other companies, as well as the risk that other companies may attempt to infringe the patents and/or trademark rights of ALK are both monitored and, if necessary, suitable measures are taken.

Regulation and price control

Description

ALK's products are subject to a large number of statutory and regulatory requirements with respect to issues such as safety, efficacy and production. In most of the countries in which ALK operates, prescription drugs are subject to reimbursement from, and price controls by, national authorities. This often results in major price differences between individual markets. Regulatory requirements and interventions, as well as price control measures, may therefore have a significant impact on the Group's earnings capacity.

Risk mitigation

ALK actively engages in dialogue with authorities with the aim of securing fair pricing and reimbursement agreements, and maintains a strong focus on market access strategy.

Continues

Commercialisation: Market acceptance

Description
If ALK and its partners succeed in developing new products and obtaining regulatory approvals for them, the ability to generate revenue depends on the products being accepted by doctors and patients.

The degree of market acceptance for a new product or drug candidate depends on a number of factors, including the demonstration of clinical efficacy and safety, cost-effectiveness, convenience and ease of administration, potential advantages over alternative treatment methods, competition, and marketing and distribution support. If ALK's new products, primarily tablets, fail to achieve market acceptance, this could have a significant influence on the Group's ability to generate revenue. Even if market acceptance of the tablets is successfully achieved, the extent of their acceptance could influence the Group's ability to fully deliver on its growth sales target from these products.

Risk mitigation
ALK regularly conducts extensive surveys of market conditions and similar factors and commits significant resources to providing information on its products to doctors and patients. Sales growth targets are set with a full understanding of the potential risks involved in successfully marketing any product and these are anticipated and managed so far as is possible.

Commercialisation: Allergic reactions

Description
ALK's products may be associated with allergic reactions of varying extents, durations and severities. If such events occur in unexpected situations, they may have an impact on the Group's earnings and sales.

Risk mitigation
ALK stringently monitors product quality and safety, both in clinical development and in sales and marketing activities. If, despite the high levels of quality and safety, a situation should occur in which it is necessary to recall a product, ALK has procedures in place to ensure that this can be managed swiftly and efficiently.

Competition and pricing

Description
ALK operates in markets characterised by intense competition. If, for instance, a competitor launches a new and more effective treatment for allergy, it may have a material impact on ALK's sales. A competitive market may also lead to market-driven price reductions just as national and regional authorities may mandate price reductions. Equally, there may be circumstances that prevent planned price increases, with a consequent impact on revenue. Both competition and price are risks that may have a material impact on ALK's ability to achieve its long-term goals.

Risk mitigation
ALK monitors economic, market and regulatory developments as they relate to product pricing, along with the competitive situation and initiatives in all important markets with the aim of appropriate risk mitigation.

Production and quality

Description
ALK has concentrated its key in-house production capacity at plants in Denmark, France, Spain and the USA. Although the plants are located in areas that have not historically been hit by natural disasters, this geographical spread calls for risk planning in order to avoid emergencies, such as lack of, or poor access to raw materials: for instance, pollen.

Production and manufacturing processes are also subject to periodic and routine inspections by regulatory authorities as a regular part of their monitoring processes in order to ensure that all manufacturers observe the prescribed requirements and standards. Meeting these quality standards is a prerequisite for the Group's ability to supply products and hence its competitive strength.

As ALK works to rationalise its portfolio, there may be risks associated with the discontinuation of its products. Among others, these may include potential disruption at manufacturing sites during decommissioning work, the loss of sales from products for which no suitable ALK substitute product exists, or the inability to meet sudden spikes in demand for other products due to patients switching from discontinued products.

Risk mitigation
ALK conducts risk planning including for the prevention of unwanted events, and preventative inventory management, such as the build-up of contingency stocks in order to ensure an unbroken chain of production and supply.

ALK's production processes and quality standards have been developed and optimised over many years. ALK has invested significantly to increase the robustness and compliance of the legacy business by reducing manufacturing complexity, and all possible steps are taken during portfolio rationalisation work to mitigate any potential impact on other areas of manufacturing or the wider business.

Continues

Dependencies on third parties

Description
ALK has partnership agreements with third parties with a view to commercialising the Group's products in a number of markets, and with parties supplying important input for key production processes,as, for example, with tablet formulation. Although there are financial incentives for all of ALK's partners to fulfil their contractual obligations, there can be no assurance that they will actually do so. Moreover, reliance on suppliers and third-party manufacturers entails risks that ALK would not be subject to if the Group possessed the necessary in-house manufacturing capabilities. Such risks include but are not limited to:

- Reliance on a third party for regulatory compliance and quality assurance
- Possible breach of a manufacturing agreement by a third party due to factors beyond ALK's control and influence
- Reliance on the ability of a third party to deliver and scale up the volume of production

Risk mitigation
ALK manages these risks through contractual stipulations, planning and monitoring, and joint steering committees that work together with these external parties.

IT security

Description
Disruption to IT systems, such as breaches of data security, may happen across the global value chain, where well-functioning IT systems and infrastructure are critical to the Group's ability to operate effectively.

Risk mitigation
ALK manages this risk, among other ways, by having a security strategy in place to prevent intruders from causing damage to systems and gaining access to critical data and systems. Awareness campaigns, access controls, intrusion detection and prevention systems have all been implemented, and systems are regularly upgraded to increase network security.

Business ethics

Description
ALK's good reputation is essential for operating within the pharmaceutical industry. ALK aims to maintain its standing by acting in compliance with all applicable regulations and legislation.

Risk mitigation
ALK strives to act professionally, honestly, and with high integrity throughout the Group in relation to stakeholders. From customers, employees and shareholders, to society, suppliers and partners. ALK's Code of Conduct is updated regularly and defines ALK's high standard of ethical behaviour in relation to customers, employees, shareholders, society, suppliers and partners. Once a year, all employees are asked to sign and confirm their knowledge of the Code of Conduct and in addition, all employees were asked to take an anti-corruption online test in 2019.

Financial reporting

Description
If well-functioning risk management and internal controls are not implemented at ALK, there is a risk of material misstatements in ALK's financial reporting.

Risk mitigation
ALK's risk management and internal controls relating to financial reporting are designed to effectively control the risk of material misstatements. A detailed description of ALK's internal controls and risk management system in relation to financial reporting processes is reviewed annually by the Audit Committee and is included in the statutory corporate governance statement, cf. section 107b of the Danish Financial Statement Act, and is available at the company's website: https://ir.alk.net/financial-reporting/risk-management

Financial risks

Description
Due to the nature of its operations, investments and financing, ALK is exposed to fluctuations in exchange rates and interest rates.

Risk mitigation
The ALK Group's financial risks are managed centrally, based on policies approved by the Board of Directors. The objective of ALK's financial risk management is to reduce the sensitivity of earnings to fluctuations in exchange rates, interest rates, liquidity and changes in credit rating. Group policy is to refrain from active financial speculation. See note 24 of this annual report for a specification of the Group's exposure to currency, interest rate and credit risks and its use of derivative financial instruments.

Remuneration report

Remuneration report

The purpose of ALK's remuneration guidelines are to:

- attract, motivate and retain qualified members of the Board of Directors and the Board of Management
- align the remuneration components with the interests of shareholders
- ensure that the individual members of executive management are rewarded to reflect company performance and individual results as described in the guidelines for incentive pay

The current remuneration guidelines and the guidelines for incentive pay can be found here: https://ir.alk.net/corporate-governance

Remuneration for the Board of Directors

Base fee 2019

The directors' base fee was unchanged in 2019 at DKK 275,000.

Remuneration structure

The members of the Board of Directors are not offered any share options, performance shares or other incentives, and only travel costs are reimbursed. Employee-elected members of the Board of Directors are eligible for the general incentive programmes for employees at ALK.

The Vice Chairman receives double the base fee and the Chairman gets three times the base fee. In addition, in 2019, members of the Audit Committee and the Remuneration Committee each received a fee of DKK 100,000, while the Chairman of the Audit Committee, the Remuneration Committee and the Scientific Committee each received DKK 150,000.

Continues

Board of Directors

	Audit Committee	Remune-ration Committee	Scientific Committee	Nomination Committee
Steen Riisgaard, Chairman	Member	Chairman		Chairman
Lene Skole*, Vice Chairman	Member			Member
Katja Barnkob				
Nanna Rassov Carlson				
Lars Holmqvist*		Member		
Gonzalo De Miquel		Member	Chairman	
Jakob Riis*	Chairman			
Johan Smedsrud				
Vincent Warnery				

Ownership interest in ALK

	Holding as at 31 December 2019	Changes during the year
Steen Riisgaard	1,000	-
Lene Skole*	1,150	-
Katja Barnkob	24	-
Nanna Rassov Carlson	-	-
Lars Holmqvist*	-	-
Gonzalo de Miquel	-	-
Jakob Riis*	550	-
Johan Smedsrud	-	-
Vincent Warnery	-	-
Total	**2,724**	**-**

Actual remuneration for the Board of Directors

DKKt	Base fee	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee	2019	2018	2017
Steen Riisgaard	825	100	150		-	1,075	1,055	975
Lene Skole*	550	100			-	650	650	650
Katja Barnkob	275					275	275	275
Nanna Rassov Carlson (joined March 2019)	220					220	-	-
Lars Holmqvist*	275		100			375	375	375
Andreas Slyngborg Holst (resigned March 2019)	55					55	275	275
Jacob Kastrup (resigned March 2019)	55					55	275	275
Gonzalo De Miquel	275		100	150		525	421	-
Jakob Riis*	275	150				425	425	425
Johan Smedsrud (joined March 2019)	220					220	-	-
Vincent Warnery (joined March 2019)	220					220	-	-
Former members of Board of Directors	-	-	-	-		-	179	900
Total	**3,245**	**350**	**350**	**150**	**-**	**4,095**	**3,930**	**4,150**

Remuneration multiple 2019, Board of Directors and committees

	Board of Directors	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee
Chairman	3.0	0.55	0.55	0.55	-
Vice Chairman	2.0	n/a	n/a	n/a	n/a
Member	1.0	0.36	0.36	n/a	-

* These board members are not regarded as independent in the sense of the definition contained in the Danish recommendations on Corporate Governance due to being affiliated with the Lundbeck Foundation, which owns 40.3% of ALK's shares.

Remuneration for Board of Management
Compensation for the CEO in 2019 totalled DKK 14.2 million, which was a decrease of 10% compared to 2018, mainly as a consequence of decrease in long-term incentives (LTI). The base salary increased by 4% to DKK 6.5 million and the short-term incentive (STI) cash bonus of DKK 4.5 million was 93% of the maximum bonus. The bonus pay-out reflected performance exceeding the Group's financial targets as well as strong global sales of SLIT-tablets. LTI (granted) decreased to DKK 2.9 million as 2018 included grant of special LTI programme.

Compensation for the EVP for R&D totaled DKK 6.0 million in 2019. This represents a decrease of 14% compared to 2018, mainly as a consequence of decrease in LTI. The base salary increased by 2% to DKK 2.9 million and the STI cash bonus was DKK 1.3 million which constituted 93% of the maximum bonus. The bonus pay-out reflected performance that exceeded expectations in connection with the Group's financial goals as well as progress in completing the tablet portfolio. LTI (granted) decreased to DKK 1.2 million as 2018 included grant of special LTI programme.

The EVP for Commercial Operations received total compensation of DKK 5.8 million in 2019, representing a decrease of 18% compared to 2018, mainly as a consequence of decrease in LTI. The base salary increased by 1% to DKK 2.9 million. The STI cash bonus was DKK 1.3 million which constituted 93% of the maximum bonus. The bonus pay-out reflected performance that exceeded expectations in connection with the Group's financial targets as well as strong global SLIT-tablet sales. Long-term incentive (granted) decreased to DKK 1.0 million as 2018 included grant of special LTI programme.

Compensation for the CFO totalled DKK 6.6 million in 2019 representing a decrease of 1% compared to 2018, mainly as a consequence of decrease in LTI. The base salary increased by 24% to DKK 2.9 million and the STI cash bonus was DKK 1.3 million which constituted 93% of the maximum bonus. The bonus pay-out reflected performance that exceeded expectations in relation to the Group's financial goals and progress on optimization programmes. Long-term incentive (granted) decreased to DKK 1.7 million as 2018 included grant of special LTI programme.

The remuneration for the Board of Management under the long-term share-based incentive programmes consists of the total value of granted in the respective years based on fair value at the time of grant. As a supplementary information, the expensed accounting value as determined under IFRS 2 is presented separately. The actual value to the participants at the time of vesting depends on achievement of performance criteria and development in share price.

Remuneration structure
The remuneration of the Board of Management is a combination of fixed and performance-based pay. In addition to a fixed salary, pension and other standard, nonmonetary benefits, the members of Board of Management take part in short- and long-term incentive plans.

Short-term incentive plan
The STI plan is an annual cash bonus scheme linked to the achievement of pre-defined financial and non-financial targets. The CEO may receive an annual bonus of up to a maximum of 75% of his annual base salary and Executive Vice Presidents may receive an annual bonus of up to a maximum of 50% of their annual base salary.

The targets are set and evaluated annually by the Board of Directors, and the financial goals act as a bonus qualifier with a predefined threshold for the achievement of each financial target. In 2019, the weighting of the financial goals was 30%, and the combined weighting of targets for the four strategic pillars was 70%. All goals were set collectively for the CEO and the EVPs.

Long-term incentive plan
The LTI plan is an equity-based plan linked to the creation of shareholder value and the fulfilment of the strategic goals. The Board of Directors decides on a year-to-year basis whether a plan should be established. The value of the plan must be in the range of 30-50% of the annual base salary for each member of the Board of Management at the time of grant.

The total value at the date of grant is split equally between share options and performance shares. Both plans are subject to the fulfilment of economic indicators over a three-year period, with a threshold below which there is no pay-out, and with the opportunity to perform above target. Where performance is above target, a multiplier is applied that can increase the pay-out by up to 100%.

If a member of the Board of Management leaves ALK as a result of their own resignation or severe misconduct, all rights to the LTIs are cancelled.

Special incentive plan: equity-based, one-time scheme
In 2018, a special incentive plan was established for the Board of Management designed to incentivise implementation of ALK's growth strategy. The total value of the plan was 50% of each executive's annual base salary at the time of allocation/grant, and it was split equally between share options and performance shares.

The special incentive plan is conditional upon economic indicators being attained over a three-year period, with a threshold value below which the plan will not pay out. If results exceed this threshold, a defined multiplier may increase the grant/allocation by up to 300%. However, the overall pay-out on the exercise date for share options or performance shares can never exceed a total value of 300% of the recipient's annual base salary on the date of

Continues

Board of Management's ownership interest in ALK as at 31 December 2019

	Shares 31.12.2019	Net change during the year*	Share options 31.12.2019	Net change during the year*	Conditional shares 31.12.2019	Net change during the year*	Performance shares 31.12.2019	Net change during the year*
Carsten Hellmann	2,040	-	52,056	-534		-	5,956	1,364
Henrik Jacobi	599	-1,534	14,234	-6,202	-	-466	2,907	577
Søren Jelert	-	-	10,330	3,805	-	-	2,097	786
Søren Niegel	2,029	16	21,643	-2,826	-	-466	2,609	473
Total	**4,668**	**-1,518**	**98,263**	**-5,757**	**-**	**-932**	**13,569**	**3,200**

* The figures indicate the net movement in the course of the year, i.e., shares bought and sold and conditional shares delivered, options granted less exercised and expired options, conditional shares granted less delivered and cancelled conditional shares as well as performance shares granted.

grant of the share options and allocation of the performance shares.

Share options may be exercised in the two years after they have vested. If they are not exercised within the two years, they will expire. The performance shares are allocated to each member of the Board of Management after three years if the pre-defined criteria have been met.

If a member of the Board of Management leaves ALK as a result of their own resignation or severe misconduct, all rights to the LTIPs are cancelled.

Remuneration policy

The overall aim of the policy is to provide a framework for remuneration at ALK, including specific guidelines for incentive pay. Specifically, the aim of the policy is to ensure transparency for ALK's shareholders based on a clear, understandable and comprehensive overview of the remuneration provided by ALK.

At the annual general meeting in March 2020, the Board of Directors will present a new remuneration policy for approval by the shareholders, which will apply to the Board of Directors and the Board of Management. The new policy has been prepared in accordance with section 139a of the Danish Companies Act, and the amended EU Directive on the encouragement of long-term shareholder engagement.

The new remuneration policy will replace the previous guidelines for remuneration and incentive pay.

Remuneration structure and remuneration for Board of Management*

DKKt	CEO			EVP, R&D			EVP, Commercial Operations			CFO				
Element	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	Objective	Remuneration level	Performance measure
Base salary	**6,500**	6,250	6,250	**2,854**	2,798	2,798	**2,900**	2,881	2,551	**2,850**	2,300	Attract and retain qualified executives.	On par with market compared to the level in similar listed Danish companies with global reach.	N/A
Short-term incentive (cash bonus)	**4,534**	3,984	4,688	**1,327**	1,026	1,166	**1,349**	1,296	1,260	**1,325**	1,035	Ensure a clear link between value creation and payment	For the CEO, target is 70% and maximum is 75%. For the EVPs, target is 25% and max is 50% of the base salary	The financial targets act as qualifiers for bonus pay-out. The remaining targets concern the 4 strategic pillars. 70% of the bonus relates to the group performance and 30% to the individual performance.
Sign-on bonus (cash)	**-**	-	1,500	**-**	-	-	**-**	-	-	**-**	686			
Pension incl. social security	**2**	2	2	**430**	422	422	**437**	380	380	**429**	347	N/A	The EVPs have a pension scheme whereby the company contributes 15% of their base salary.	N/A
Other benefits	**243**	243	243	**141**	141	106	**142**	142	219	**278**	288			
Total excl. long-term incentive	**11,278**	**10,479**	**2,682**	**4,752**	**4,387**	**4,492**	**4,827**	**4,699**	**4,410**	**4,882**	**4,656**			
Long-term incentive. Total value at grant in the respective years**	**2,925**	5,375	11,175	**1,238**	2,614	1,045	**1,014**	2,434	1,009	**1,686**	1,954	Reward long-term value creation and align with shareholders' interest	Target is 35-50% of the annual base salary at the date of grant. At vesting, the programme will be paid out at 0-200% depending on the fulfilment of the goals in the programme.	The goals relate to revenue and success in the strategic priorities.
Total	**14,203**	**15,853**	**23,857**	**5,990**	**7,000**	**5,537**	**5,842**	**7,133**	**5,419**	**6,568**	**6,610**			
Long-term incentive (equity based) based on expensed accounting value in the respective year**	**5,735**	2,213	9,447	**2,801**	1,437	934	**2,680**	1,352	924	**2,260**	543			
Severance pay if terminated by ALK	30 months pay consisting of base salary during the termination period (6 months) and severance pay (24 months)			24 months pay consisting of base salary during the termination period (6 months) and severance pay (18 months)			19 months pay consisting of base salary during the termination period (6 months) and severance pay (13 months). The severance pay will increase by one month per year of hire until reaching a total of 18 months in 2024.			14 months pay consisting of base salary during the termination period (6 months) and severance pay (8 months). The severance pay will increase by one month per year of hire until reaching a total of 18 months in 2030.				

* The method for valuation of long-term incentive has been changed compared to 2018 and comparative numbers have been restated.
**The actual value to the participants at the time of vesting depends on achievement of performance criteria and development in share price.

Board of Directors and Board of Management

Board of Directors

Steen Riisgaard (1951, male)

Professional board member

Chairman
Board member since 2011**

Chairman of the Nomination Committee
Chairman of the Remuneration Committee
Member of the Audit Committee
Member of the Scientific Committee

Competences
Management and board work as well as experience in research & development and sales & marketing in international companies.

Directorships
COWI Holding A/S, Chairman
Xellia Pharmaceutical A/S, Chairman
The Novo Nordisk Foundation
The Villum Foundation, Vice Chairman
Novo A/S, Vice Chairman
Aarhus University
Corbion N.V., the Netherlands

Lene Skole* (1959, female)

The Lundbeck Foundation, CEO and directorships at two subsidiaries

Vice Chairman
Board member since 2014**

Member of the Audit Committee
Member of the Nomination Committee
Member of the Scientific Committee

Competences
Experience in management, financial and economic expertise, experience in strategy and communication in international companies.

Directorships
Falck A/S, Vice Chairman
H. Lundbeck A/S, Vice Chairman
Tryg Forsikring A/S
Tryg A/S
Ørsted A/S, Vice Chairman

Lars Holmqvist* (1959, male)

Professional board member

Board member since 2015**

Member of the Remuneration Committee

Competences
Experience in management, finance and sales & marketing in international life science companies, including med-tech and pharmaceutical companies.

Directorships
Biovica International AB, Sweden, Chairman
H. Lundbeck A/S
The Lundbeck Foundation
Tecan AG, Switzerland
UK Naga Topco, UK
Vitrolife AB, Sweden

Gonzalo De Miquel (1967, male)

Chief Medical Officer and EVP of Development, Vectura Ltd.

Board member since 2018**

Chairman of the Scientific Committee
Member of the Remuneration Committee

Competences
Experience in research & development within the pharmaceutical industry, a strong international mindset and significant global drug development experience.

Jakob Riis* (1966, male)

Falck A/S, President & CEO

Board member since 2013**

Chairman of the Audit Committee

Competences
Experience in management, sales & marketing in the international emergency and healthcare industry.

Directorships
Copenhagen Institute of Interaction Design, Chairman
Danish Business Promotion Board, Chairman

Continues

* These board members are not regarded as independent in the sense of the definition contained in the Danish recommendations on corporate governance due to being affiliated with the Lundbeck Foundation, which owns 40.3% of ALK's shares.
** All members elected by the annual general meeting are up for re-election each year.

Board of Directors and Board of Management

Board of Directors – continued

Vincent Warnery (1968, male)

Executive Board Member, Beiersdorf AG

Board member since 2019**

Competences
Experience in management and sales & marketing in the international consumer healthcare industry.

Katja Barnkob (1969, female)

Senior CMC Project Manager, ALK-Abelló A/S

Board member since 2011

Employee-elected

Competences
Experience in project management of global drug development projects in the pharmaceutical industry.

Nanna Rassov Carlson (1976, female)

QA Professional, ALK-Abelló A/S

Board member since 2019

Employee-elected

Competences
Expertise in production and release of ALK's active pharmaceutical ingredients for SLIT products.

Johan Smedsrud (1972, male)

Maintenance Supporter, ALK-Abelló A/S

Board member since 2019

Employee-elected

Competences
Experience in HVAC systems, cleanroom testing, utensil washing and sterilisation for the pharmaceutical industry.

Attendance at meetings

● Attended ○ Absent

	Board meetings	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee[1]
Steen Riisgaard	●●●●●●●	●●●	●●●	●●	All meetings
Lene Skole	●●●●●●●	●●●		●●	All meetings
Lars Holmqvist	●○●●●●●		●●●		
Gonzalo De Miquel	●●●●●●●		●●●	●●	
Jakob Riis	●●●●●●●	●●●			
Vincent Warnery[2]	○●●●●				
Katja Barnkob[3]	●●●●●●●				
Nanna Rassov Carlson[3,4]	●●●●●●				
Johan Smedsrud[3,4]	●●●●●●				

[1] The Nomination Committee meets when required [2] elected at the AGM on 13 March 2019 [3] employee-elected [4] elected on 1 March 2019

Board of Directors and Board of Management

Board of Management

Carsten Hellmann (1964, male)

President & CEO

Competences
Executive management experience in global healthcare and biopharmaceutical companies.

Directorships
Coloplast A/S
Dansk Erhverv

Henrik Jacobi, MD (1965, male)

Executive Vice President,
Research & Development

Competences
Experience in management, innovation, and research & development in the pharmaceutical industry.

Henrik Jacobi holds a degree in Medicine from 1993.

Søren Jelert (1972, male)

Executive Vice President & CFO

Competences
Experience in management, financial and economic expertise in the pharmaceutical industry and other sectors.

Søren Niegel (1971, male)

Executive Vice President,
Commercial Operations

Competences
Experience in management as well as global production and sales & marketing within the pharmaceutical industry.

Financial statements

Statements

Consolidated financial statements

Parent company financial statements

Statement by Management on the annual report

The Board of Directors and the Board of Management have today considered and approved the annual report of ALK-Abelló A/S for the financial year 1 January to 31 December 2019.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent financial statements are presented in accordance with the Danish Financial Statements Act. Further, the annual report is prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2019 as well as of the results of their operations and the Group's cash flows for the financial year 1 January to 31 December 2019.

In our opinion, the management review contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

We recommend the annual report for adoption at the annual general meeting.

Hørsholm, 5 February 2020

Board of Management

Carsten Hellmann
President & CEO

Henrik Jacobi
Executive Vice President,
Research & Development

Søren Jelert
Executive Vice President
& CFO

Søren Niegel
Executive Vice President,
Commercial Operations

Board of Directors

Steen Riisgaard
Chairman

Lene Skole
Vice Chairman

Katja Barnkob

Nanna Rassov Carlson

Lars Holmqvist

Gonzalo De Miquel

Jakob Riis

Johan Smedsrud

Vincent Warnery

Independent auditor's report

To the shareholders of ALK-Abelló A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of ALK-Abelló A/S for the financial year 1 January to 31 December 2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2019, and of the results of its operations and cash flows for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2019, and of the results of its operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

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

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

We were first appointed auditors for ALK-Abelló A/S before 1995. We have been re-appointed annually at the general meeting resolution for a total continuous period of more than 25 years up to and including the 2019 financial year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventories

At 31 December 2019, inventories of the Group amount to DKK 1,056 million (31 December 2018: DKK 993 million) comprising raw materials, work in progress and manufactured goods and goods for resale. Inventories are measured at cost determined by applying the FIFO method or net realisable value where this is lower. The net realisable value of the ALK product portfolio is contingent on forecasting of future sales, the ability to successfully commercialise the brand and obtain the required regulatory approvals, and is therefore to a wide extent based on assumptions and judgement made by Management. Consequently, there is a risk that inventories will be impaired if the future cash flows and other assumptions do not meet Management's expectations. Additionally, the valuation of the Group's inventories is based on a costing model, which includes a number of significant accounting judgements and estimates related to allocation of overhead and other indirect production costs, capacity utilisation and identification and posting of variances between actual and standard costs. These judgements and accounting estimates performed by Management, further increases the complexity of the valuation of inventory.

We also refer to notes 2 and 15 in the consolidated financial statements.

How this matter was addressed in the audit

Based on our risk assessment, we have tested the Group's costing setup, including which costs are included as indirect production costs, the allocation of direct and indirect production costs between the Group's products and the process for identifying cost variances. We have also tested the Group's model for eliminating internal unrealised profit in the consolidated financial statements. Finally, we have obtained the Group's inventory valuation model and tested the reasonableness of the key assumptions, in particular future revenue projections, impact of expiry dates and probability of obtaining required regulatory approvals. We have assessed and challenged Management's assumptions and judgement used in the costing setup and inventory valuation model, including:

- Performed detailed tests of raw material prices and costs included as indirect production costs

- Tested Management's process for identifying cost variances and assessed how these are reflected in the determination of inventory valuation at actuals as at the balance sheet date
- Assessed Management's assumptions around, and judgements related to, determining normal capacity and allocation of direct and indirect production costs between products
- Reviewed and tested Management's process and model for elimination of internal unrealised profit in the consolidated financial statements
- Discussed with Management and key employees whether the valuation of inventories is supported by future sales forecasts
- Analysed Management's estimates with regard to projected sales forecasts compared to expiry dates

Measurement of deferred tax asset in Denmark

At 31 December 2019, a deferred tax asset in Denmark related to tax losses carried forward of DKK 372 million has been recognised in the Group's balance sheet (31 December 2018: DKK 313 million). The utilisation of the deferred tax asset is based on Management's expectations that ALK-Abelló A/S and the companies in the Danish joint taxation scheme will generate significant future taxable profits in Denmark within the next five years.

Judgement is, therefore, required in assessing the most significant accounting estimates, i.e. the probability of realising the significant future taxable profits in Denmark.

We also refer to notes 2, 9 and 14 in the consolidated financial statements.

How the matter was addressed in the audit

Based on our risk assessment, we tested the appropriateness of the Group's model for measurement of the deferred tax asset in Denmark related to tax losses carried forward.

We reviewed and challenged the documentation prepared by Management on the deferred tax asset, including Management's best estimate of the probability of realising the significant future taxable profits in Denmark, including sensitivity and risk analysis.

We tested the applied assumptions to the budget and forecasts as approved by the Board of Directors of ALK-Abelló A/S as well as to information about expected future taxable profits in Denmark for the companies in the Danish joint taxation scheme for the next five years (2020-2024), including best estimate and sensitivity analysis.

We have involved tax specialists in our review of Management's tax computation to ensure compliance with relevant tax requirements.

We also evaluated the financial statements disclosures related to the deferred tax asset.

Statement on the management review

Management is responsible for the management review.

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

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

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

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

Management's responsibilities for the consolidated financial statements and the parent financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Copenhagen, 5 February 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Sumit Sudan	**Martin Norin Faarborg**
State-Authorised Public Accountant	State-Authorised Public Accountant
MNE no mne33716	MNE no mne29395

Contents of the consolidated financial statements

Consolidated financial statements

Notes

Income statement

Amounts in DKKm	Note	2019	2018
Revenue	3	3,274	2,915
Cost of sales	4-6,15	1,382	1,282
Gross profit		**1,892**	**1,633**
Research and development expenses	4-6	466	392
Sales and marketing expenses	4-6	1,210	1,137
Administrative expenses	4-6	246	227
Other operating income	7	16	27
Operating profit / (loss) (EBIT)		**(14)**	**(96)**
Financial income	8	22	24
Financial expenses	8	39	31
Profit / (loss) before tax (EBT)		**(31)**	**(103)**
Tax on profit / (loss)	9	19	67
Net profit / (loss)		**(50)**	**(170)**
Earnings / (loss) per share (EPS)	17		
Earnings / (loss) per share (EPS)		(4.59)	(15.64)
Earnings / (loss) per share (DEPS), diluted		(4.59)	(15.64)

Statement of comprehensive income

Amounts in DKKm	Note	2019	2018
Net profit / (loss)		**(50)**	**(170)**
Items that will subsequently not be reclassified to the income statement:			
Actuarial gains / (losses) on pension plans	18	(37)	3
Tax related to actuarial gains / (losses) on pension plans		11	(1)
		(26)	**2**
Items that will subsequently be reclassified to the income statement, when specific conditions are met:			
Foreign currency translation adjustment of foreign affiliates		23	45
Tax related to other comprehensive income, that will subsequently be reclassified to the income statement		(3)	(6)
		20	**39**
Total		**(6)**	**41**
Total comprehensive income / (loss)		**(56)**	**(129)**

Cash flow statement

Amounts in DKKm	Note	2019	2018
Net profit / (loss)		**(50)**	**(170)**
Adjustments			
Adjustments for non-cash items	10	389	320
Changes in working capital	21	(95)	(74)
Financial income, paid		5	7
Financial expenses, paid		(33)	(24)
Income taxes, paid		(84)	(154)
Cash flow from operating activities		**132**	**(95)**
Acquisitions of companies and operations*		(20)	(21)
Sale of companies and operations	11	29	-
Additions, intangible assets	12	(20)	(52)
Additions, tangible assets	13	(147)	(126)
Change in other financial assets		1	-
Cash flow from investing activities		**(157)**	**(199)**
Free cash flow		**(25)**	**(294)**
Sale of treasury shares		11	8
Exercise of share options	5	(24)	(18)
Repayment of lease liabilities		(28)	-
Repayment of borrowings		(16)	(18)
Cash flow from financing activities		**(57)**	**(28)**
Net cash flow		**(82)**	**(322)**
Cash beginning of year		296	162
Marketable securities beginning of year		100	549
Cash and marketable securities beginning of year		**396**	**711**
Unrealised gain / (loss) on cash held in foreign currency and financial assets carried as cash and marketable securities		2	7
Net cash flow		(82)	(322)
Cash year end		316	296
Marketable securities year end		-	100
Cash and marketable securities year end		**316**	**396**

The consolidated statement of cash flow is compiled using the indirect method. As a result, the individual figures in the cash flow statement cannot be reconciled directly to the income statement and the balance sheet.

* Relates to final instalment payment for the acquisition of the operating assets of Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC in 2017.

Balance sheet

Amounts in DKKm	Note	31 Dec. 2019	31 Dec. 2018
Assets			
Non-current assets			
Intangible assets			
Goodwill	12	461	465
Other intangible assets	12	221	260
		682	**725**
Tangible assets			
Land and buildings	13	1,023	878
Plant and machinery	13	325	382
Other fixtures and equipment	13	61	52
Property, plant and equipment in progress	13	330	272
		1,739	**1,584**
Other non-current assets			
Securities and receivables		46	9
Deferred tax assets	14	620	548
Income tax receivables		160	-
		826	**557**
Total non-current assets		**3,247**	**2,866**
Current assets			
Inventories	15	1,056	993
Trade receivables	16	407	328
Receivables from affiliates	26	116	28
Income tax receivables		9	58
Other receivables		133	113
Prepayments		211	83
Marketable securities		-	100
Cash		316	296
Total current assets		**2,248**	**1,999**
Total assets		**5,495**	**4,865**

Amounts in DKKm	Note	31 Dec. 2019	31 Dec. 2018
Equity and liabilities			
Equity			
Share capital	17	111	111
Currency translation adjustment		(19)	(42)
Retained earnings		3,084	3,110
Total equity		**3,176**	**3,179**
Liabilities			
Non-current liabilities			
Mortgage debt	19	259	276
Bank loans and financial loans	19	448	449
Pensions and similar liabilities	18	297	227
Lease liabilities	23	234	-
Other provisions	20	-	2
Deferred tax liabilities	14	4	6
Income taxes		143	-
		1,385	**960**
Current liabilities			
Mortgage debt	19	18	17
Trade payables		81	135
Lease liabilities	23	31	-
Other provisions	20	23	26
Income taxes		20	9
Other payables		760	539
Deferred income		1	-
		934	**726**
Total liabilities		**2,319**	**1,686**
Total equity and liabilities		**5,495**	**4,865**

Statement of changes in equity

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2019				
Equity at 1 January 2019	**111**	**(42)**	**3,110**	**3,179**
Net profit/(loss)	-	-	(50)	(50)
Other comprehensive income/(loss)	-	23	(29)	(6)
Total comprehensive income/(loss)	**-**	**23**	**(79)**	**(56)**
Share-based payments	-	-	39	39
Share options settled	-	-	(24)	(24)
Sale of treasury shares	-	-	11	11
Tax related to items recognised directly in equity	-	-	27	27
Other transactions	**-**	**-**	**53**	**53**
Equity at 31 December 2019	**111**	**(19)**	**3,084**	**3,176**

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2018				
Equity at 1 January 2018	**111**	**(87)**	**3,266**	**3,290**
Net profit/(loss)	-	-	(170)	(170)
Other comprehensive income/(loss)	-	45	(4)	41
Total comprehensive income/(loss)	**-**	**45**	**(174)**	**(129)**
Share-based payments	-	-	20	20
Share options settled	-	-	(18)	(18)
Sale of treasury shares	-	-	8	8
Tax related to items recognised directly in equity	-	-	8	8
Other transactions	**-**	**-**	**18**	**18**
Equity at 31 December 2018	**111**	**(42)**	**3,110**	**3,179**

Notes to the consolidated financial statements

1 Accounting policies

General

The consolidated financial statements for the period 1 January to 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with Danish disclosure requirements for listed companies. Additional Danish disclosure requirements for annual reports are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act.

The consolidated financial statements are presented in Danish kroner (DKK), which is considered the primary currency of the ALK Group's activities and the functional currency of the parent company.

The consolidated financial statements are presented on a historical cost basis, apart from certain financial instruments, which are measured at fair value. Otherwise, the accounting policies are as described below.

The accounting policies are unchanged from last year except for the below mentioned.

New standards effective from 1 January 2019
The ALK Group has implemented all new and amended standards and interpretations (IFRIC) which are effective for the financial year 2019. Apart from the below, such implementation has not had any impact on the ALK Group.

IFRS 16 Leases
The ALK Group has applied IFRS 16 Leases from 1 January 2019 in accordance with the modified retrospective method. As a result, the prior-year figures were not adjusted.

ALK has applied the lease recognition exemptions for short term lease contracts and low-value assets. Leases with terms ending within twelve months of the date of initial application are accounted for as short-term leases. Car leases are treated as low-value assets recognised as expenses in the income statement since the impact of these leases is considered immaterial.

Newly recognised lease liabilities have been measured at the present value of the remaining lease payments at 1 January 2019 and discounted using the incremental borrowing rate. Right-of-use assets have been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Due to the application of IFRS 16, right-of-use assets and lease liabilities of DKK 266 million have been recognised in the balance sheet at 1 January 2019. See note 23 for further information on initial impact.

The application of IFRS 16 has the following impact in the income statement for the year:

- Increase in depreciation of DKK 34 million.
- Increase in interest expenses of DKK 8 million.
- Decrease in rental costs of DKK 37 million.

IFRIC 23 Uncertainty over Income Tax Treatments
The ALK Group has applied the interpretation IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. The interpretation clarifies the accounting for uncertainties in income taxes and states that an entity should determine whether uncertain tax positions are assessed separately or as a group and the approach that reflects the most likely outcome is followed.

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

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

The change in accounting policy and resulting change in presentation of uncertain tax positions related to previous years recognised under the transition provisions in IFRIC 23 has the following impacts as of 1 January 2019:

- Increase in tax payable (non-current liability) of DKK 95 million.
- Increase in tax receivable (non-current receivable) of DKK 105 million.
- Decrease in deferred tax assets of DKK 10 million.

New standards effective after 1 January 2020
A number of IFRS standards, amended standards and IFRIC interpretations, which are effective on or after 1 January 2020, have not been implemented. Based on a preliminary assessment it is estimated that these standards and interpretations will have no material impact on the consolidated financial statements for 2019 and in the coming years.

The consolidated financial statements
The consolidated financial statements comprise the financial statements of ALK-Abelló A/S (the parent company) and companies (subsidiaries) controlled by the parent company. The parent company is considered to control a subsidiary when it holds, directly or indirectly, more than 50% of the voting rights, or is otherwise able to exercise or actually exercises a controlling influence.

Basis of consolidation
The consolidated financial statements are prepared based on the financial statements of ALK-Abelló A/S and its subsidiaries. The consolidated financial statements are prepared as a consolidation of items of a uniform nature. The financial statements used for consolidation are prepared in accordance with the ALK Group's accounting policies.

On consolidation, intra-group income and expenses, intra-group balances and dividends, and gains and losses arising on intra-group transactions are eliminated.

Business combinations
Newly acquired or newly established companies or operations are recognised in the consolidated financial statements from the date of acquisition or establishment. The date of acquisition is the date when control of the company actually passes to the ALK Group. Companies sold or discontinued are recognised in the consolidated income statement up to the date of disposal. The date of disposal is the date when control of the company actually passes to a third party.

Acquisitions are accounted for using the purchase method, according to which the identifiable assets, liabilities and contingent liabilities of companies acquired are measured at fair value at the date of acquisition. However, non-current assets held for

Notes to the consolidated financial statements

1 Accounting policies – continued

sale are measured at fair value less expected costs to sell.

Restructuring costs are only recognised in the takeover balance sheet if they represent a liability to the acquired company. The tax effect of revaluations is taken into account.

The cost of a company is the fair value of the consideration paid. If the final determination of the consideration is conditional on one or more future events, these are recognised at their fair value as of the acquisition date.

Costs that can be attributed directly to the transfer of ownership are recognised in the income statement when they are incurred. As a general rule, adjustments to estimates of conditional consideration are recognised directly to the income statement.

If the fair value of the acquired assets or liabilities subsequently proves different from the values calculated at the acquisition date, cost is adjusted for up to 12 months after the date of acquisition.

Any excess of the cost of an acquired company over the fair value of the acquired assets, liabilities and contingent liabilities (goodwill) is recognised as an asset under intangible assets and tested for impairment at least once a year.

Gains or losses on disposal of subsidiaries
Gains or losses on disposal of subsidiaries are stated as the difference between the disposal amount and the carrying amount of net assets including goodwill at the date of disposal, accumulated foreign exchange adjustments recognised in other comprehensive income, and anticipated disposal costs. The disposal amount is measured as the fair value of the consideration received.

Foreign currency translation
On initial recognition, transactions denominated in currencies other than DKK are translated at average exchange rates, which are an approximation of the exchange rates at the transaction date. Receivables and debt and other monetary items not settled at the balance sheet date are translated at the closing rate.

Exchange rate differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial items. Tangible assets and intangible assets, inventories and other nonmonetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than DKK, the income statements are translated at average exchange rates for the respective months, unless these deviate materially from the actual exchange rates at the transaction dates. In that case, the actual exchange rates are used. Balance sheet items are translated at the exchange rates at the balance sheet date. Goodwill is considered to belong to the acquired company in question and is translated at the exchange rate at the balance sheet date.

Exchange rate differences arising on the translation of foreign subsidiaries' opening balance sheet items to the exchange rates at the balance sheet date and on the translation of the income statements from average exchange rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

Foreign exchange rate adjustment of receivables or debt to subsidiaries which are considered part of the parent company's overall investment in the subsidiary in question are also recognised in other comprehensive income in the consolidated financial statements.

Derivative financial instruments
Derivative financial instruments are measured at fair value on initial recognition. Subsequently, they are measured at fair value at the balance sheet date.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the value of the hedged asset or hedged liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as effective hedges of future transactions are recognised in other comprehensive income. When the hedged transactions are realised, cumulative changes are recognised as part of the cost of the transactions in question. Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries are recognised in other comprehensive income to the extent that the hedge is effective. On disposal of the foreign subsidiary in question, the cumulative changes are transferred to the income statement.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised as financial items in the income statement as they occur.

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

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

The ALK Group settles the share-based equity settled incentive plans in shares. However, the share option agreement entitles the ALK Group to demand cash settlement of the options. The ALK Group recognises share options, in case of cash settlement, as other liabilities and adjusts to fair value as from the time when the ALK Group has an obligation to settle in cash. The ALK Group recognises subsequent adjustment to fair value in the income statement under financial income or financial expenses.

Tax
Tax on the profit for the year comprises the year's current tax and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to items recognised in other comprehensive income and directly in equity, respectively, is recognised in other comprehensive income or directly in equity. Exchange rate adjustments of deferred tax are recognised as part of the adjustment of deferred tax for the year.

Current tax payable and receivable is recognised in the balance sheet as the expected tax on the taxable income for the year, adjusted for tax paid on account.

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

Notes to the consolidated financial statements

1 Accounting policies – continued

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

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to the initial recognition of goodwill or the initial recognition of a transaction, apart from business combinations, and where the temporary difference existing at the date of initial recognition affects neither profit/loss for the year nor taxable income.

Deferred tax is calculated based on the planned use of each asset and settlement of each liability, respectively. Deferred tax is measured using the tax rates and tax rules that, based on legislation enacted or in reality enacted at the balance sheet date, are expected to apply in the respective countries when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changed tax rates or rules are recognised in the income statement, in other comprehensive income or in equity, depending on where the deferred tax was originally recognised. Deferred tax related to equity transactions is recognised in equity.

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 assets to be offset against future positive taxable income. Deferred tax assets including the tax value of tax losses are recognised if it is probable that it can be utilized against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilize tax losses in the joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S).

At each balance sheet date, it is reassessed whether it is likely that there will be sufficient future taxable income for the deferred tax asset to be utilised.

The parent company is included in a joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S) and its Danish subsidiaries. The tax charge for the year is allocated among the jointly taxed companies in proportion to the taxable incomes of individual companies, taking into account taxes paid.

Income statement

Revenue

The ALK Group has revenue from sale of own-manufactured goods and goods for resale. Revenue is recognised in the income statement upon transfer of control, which is when delivery has taken place. Revenue is recognised by the ALK Group at a point in time.

Revenue is measured as the fair value of the consideration received or receivable.

Revenue is measured exclusive of VAT, taxes etc. charged on behalf of third parties and less any commissions and discounts in connection with sales.

Furthermore, revenue includes licence income and royalties from outlicensed products as well as up-front payments, milestone payments and services in connection with partnerships. These revenues are recognised in accordance with the agreements and when it is probable that future economic benefits will flow to the ALK Group and these benefits can be measured reliably. Nonrefundable payments that are not attributable to subsequent research and development activities are recognised when the related right is obtained, whereas payments attributable to subsequent research and development activities are recognised over the term of the activities. When combined contracts are entered into, the elements of the contracts are identified and assessed separately for accounting purposes.

Cost of sales

The item comprises cost of sales and production costs incurred in generating the revenue for the year. Costs for raw materials, consumables, goods for resale, production staff and a proportion of production overheads, including maintenance and depreciation, amortisation and impairment of tangible assets and intangible assets used in production as well as operation, administration and management of factories are recognised in cost of sales and production costs. In addition, the costs and write-down to net realisable value of obsolete and slow-moving goods are recognised.

Research and development expenses

The item comprises research and development expenses, including expenses incurred for wages and salaries, amortisation, impairment of capitalised development projects in progress, and other overheads as well as costs relating to research partnerships. Research expenses are recognised in the income statement when incurred. Due to the long development periods and significant uncertainties in relation to the development of new products, including risks regarding clinical trials and regulatory approvals, it is the assessment that most of the ALK Group's development expenses do not meet the capitalisation criteria in IAS 38, Intangible Assets. Consequently, development expenses are generally recognised in the income statement when incurred. Development expenses relating to individual minor development projects running for short-term periods and subject to limited risk are capitalised under other intangible assets.

Sales and marketing expenses

The item comprises selling and marketing expenses, including salaries and expenses relating to sales staff, advertising and exhibitions, depreciation, amortisation and impairment losses on tangible assets and intangible assets used in the sales and marketing process as well as other indirect costs.

Administrative expenses

The item comprises expenses incurred for management and administration, including expenses for administrative staff and management, office expenses and depreciation, amortisation and impairment losses on tangible assets and intangible assets used in administration.

Other operating income and other operating expenses

Other operating income and other operating expenses comprise income and expenses of a secondary nature relative to the principal activities of the ALK Group.

Notes to the consolidated financial statements

1 Accounting policies – continued

Financial items
Financial items comprise interest receivable and interest payable, the interest element of lease payments, realised and unrealised gains and losses on securities, cash and marketable securities, liabilities and foreign currency transactions, mortgage amortisation premium/allowance etc. and supplements/provisions under the on-account tax scheme.

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

Interest income and expenses are accrued based on the principal and the effective rate of interest. The effective rate of interest is the discount rate to be used on discounting expected future payments in relation to the financial asset or the financial liability so that their present value corresponds to the carrying amount of the asset or liability, respectively.

Balance sheet

Goodwill
On initial recognition, goodwill is measured and recognised as the excess of the cost of the acquired company over the fair value of the acquired assets, liabilities and contingent liabilities, as described under 'Business combinations'.

On recognition of goodwill, the goodwill amount is allocated to those of the ALK Group's activities that generate separate cash flows (cash-generating units). The determination of cash-generating units is based on the ALK Group's management structure and internal financial management and reporting.

Goodwill is not amortised, but is tested for impairment at least once a year, as described below.

Intangible assets
Acquired intellectual property rights in the form of patents, brands, licenses, software, customer base and similar rights are measured at cost less accumulated amortisation and impairment.

Interest expenses on loans to finance the development of intangible assets are included in cost if they relate to the production period. Other borrowing costs are charged to the income statement.

The cost of software includes costs of instalment and direct salaries.

Such acquired intellectual property rights are amortised on a straight-line basis over the contract period, not exceeding 10 years. If the actual useful life is shorter than either the remaining life or the contract period, the asset is amortised over this shorter useful life. Acquired intellectual property rights are written down to their recoverable amount where this is lower than the carrying amount, as described below.

Individual minor development projects running for short-term periods which fulfil the requirement in IFRS are capitalised under other intangible assets as described under 'Research and development expenses' and are measured at cost less accumulated amortisation and impairment.

Intangible assets with indeterminable useful lives are not amortised, but are tested for impairment at least once a year. To the extent that the carrying amount of the assets exceeds the recoverable amount, the assets are written down to this lower amount, as described below.

Tangible assets
Land and buildings, plant and machinery and other fixtures and equipment are measured at cost less accumulated depreciation and impairment. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition and any preparation costs incurred until the date when the asset is available for use.

Lease assets are recognised at the commencement date of the contract if it is or contains a lease. Lease assets are recognised at cost less accumulated depreciation and impairment. Cost is defined as the lease liability adjusted for any lease payments made at or before the commencement date. Lease assets are depreciated on a straight-line basis over the lease term.

Interest expenses on loans to finance the manufacture of tangible assets are included in cost if they relate to the production period. Other borrowing costs are recognised in the income statement.

The depreciation base is cost less the estimated residual value at the end of the useful life. The residual value, estimated at the acquisition date and reassessed annually, is determined as the amount the company expects to obtain for the asset less costs of disposal.

The cost of an asset is divided into smaller components that are depreciated separately if such components have different useful lives.

Assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	25-50 years
Plant and machinery	5-10 years
Other fixtures and equipment	5-10 years

Depreciation methods, useful lives and residual values are reassessed once a year. Tangible assets are written down to the recoverable amount, if lower, as described below.

Impairment of tangible assets and intangible assets
The carrying amounts of tangible assets and intangible assets with determinable useful lives are reviewed at the balance sheet date to determine whether there are any indications of impairment. If such indications are found, the recoverable amount of the asset is calculated to determine any need for an impairment write-down and, if so, the amount of the write-down. For intangible assets with indeterminable useful lives and goodwill, the recoverable amount is calculated annually, regardless of whether any indications of impairment have been found.

If the asset does not generate any cash flows independently of other assets, the recoverable amount is calculated for the smallest cash-generating unit that includes the asset.

The recoverable amount is calculated as the higher of the fair value less costs to sell and the value in use of the asset or the cash-generating unit, respectively. In determining the value in use, the estimated future cash flows are discounted to their present value, using a discount rate reflecting current market assessments of the time value of money as well as risks that are specific to the asset or the cash-generating unit and which have not been taken into account in the estimated future cash flows.

If the recoverable amount of the asset or the cash-generating unit is lower than the carrying amount, the carrying amount is written down to the recoverable amount. For cash-generating units, the write-down is allocated in such a way that goodwill amounts are written down first, and any remaining

Notes to the consolidated financial statements

1 Accounting policies – continued

need for write-down is allocated to other assets in the unit, although no individual assets are written down to a value lower than their fair value less costs to sell.

Impairment write-downs are recognised in the income statement. If write-downs are subsequently reversed as a result of changes in the assumptions on which the calculation of the recoverable amount is based, the carrying amount of the asset or the cash-generating unit is increased to the adjusted recoverable amount, not, however, exceeding the carrying amount that the asset or cash-generating unit would have had, had the write-down not been made. Impairment of goodwill is not reversed.

Other financial assets

On initial recognition, marketable securities are measured at cost, corresponding to fair value. They are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognised under net financials in the income statement.

On initial recognition, investments and other financial assets are measured at cost, corresponding to fair value. They are subsequently measured at cost or amortised cost at the balance sheet date.

Inventories

Inventories are measured at cost determined under the FIFO method or net realisable value where this is lower.

Cost comprises raw materials, goods for resale, and direct payroll costs as well as fixed and variable production overheads. Variable production overheads comprise indirect materials and payroll costs and are allocated based on predetermined costs of the goods actually produced. Fixed production overheads comprise maintenance of and depreciation on the machines, factory buildings and equipment used in the manufacturing process as well as the cost of factory management and administration. Fixed production overheads are allocated based on the normal capacity of the production plant.

The net realisable value of inventories is calculated as the expected selling price less completion costs and costs incurred in making the sale.

Receivables

On initial recognition, receivables are measured at fair value, subsequently at amortised cost.

Expected credit losses are measured based on historical data adjusted by forward-looking information. Forward-looking information includes assessment of the probability of default as well as consideration of various external sources of actual and economic information that is reasonable and supportable without undue cost or effort.

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

Receivables are written down when information indicates severe financial difficulties and that there is no reasonable expectation of recovery. Financial assets written off may still be subject to enforcement activities. Any recoveries made are recognised in the income statement.

Prepayments

Prepayments are recognised as an asset and comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Dividend

Dividend is recognised as a liability when adopted by the shareholders at the annual general meeting.

Treasury shares

Acquisition and sales sums arising on the purchase and sale of treasury shares and dividends on treasury shares are recognised directly in retained earnings under equity.

Pensions and similar liabilities

The ALK Group has entered into pension agreements and similar agreements with some of the ALK Group's employees.

In respect of defined contribution plans, the ALK Group pays in fixed contributions to independent pension funds etc. The contributions are recognised in the income statement during the period in which the employee renders the related service. Payments due are recognised as a liability in the balance sheet.

In respect of defined benefit plans, the ALK Group is required to pay an agreed benefit in connection with the retirement of the employees covered by the plan, e.g. in the form of a fixed amount or a percentage of the salary at retirement.

For defined benefit plans, an annual actuarial assessment is made of the net present value of future benefits to which the employees have earned the right through their past service for the ALK Group and which will have to be paid under the plan. The Projected Unit Credit Method is applied to determine net present value.

The net present value is calculated based on assumptions of the future development of salary, interest, inflation, mortality and disability rates.

The net present value of pension liabilities is recognised in the balance sheet, after deduction of the fair value of any assets attached to the plan, as either plan assets or pension liabilities, depending on whether the net amount is an asset or a liability, as described below.

If the assumptions made with respect to discount factor, inflation, mortality and disability are changed, or if there is a discrepancy between the expected and realised return on plan assets, actuarial gains or losses occur. These gains and losses concerning previous financial years are recognised in other comprehensive income.

Provisions

Provisions are recognised when, as a consequence of a past event during the financial year or previous years, the ALK Group has a legal or constructive obligation, and it is likely that settlement of the obligation will require an outflow of the ALK Group's financial resources.

Provisions are measured as the best estimate of the costs required to settle the obligations at the balance sheet date. Provisions with an expected term of more than a year after the balance sheet date are measured at present value.

Mortgage debt

Mortgage debt is recognised on the raising of a loan at cost, equalling fair value of the proceeds

Notes to the consolidated financial statements

1 Accounting policies – continued

received, and net of transaction costs incurred. Subsequently, mortgage debt is measured at amortised cost.

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

On subsequent recognition, lease liabilities are measured at amortised cost. The difference between the present value and the nominal value of lease payments is recognised in the income statement over the term of the lease as a finance charge.

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

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

Other financial liabilities
Other financial liabilities, including bank and financial loans, trade and other payables, are on initial recognition measured at fair value. The liabilities are subsequently measured at amortised cost.

Deferred income
Deferred income comprises income received relating to subsequent financial years. Deferred income is measured at cost.

Debt
Trade payables, other payables, including sales discounts and rebates as well as debt to public authorities etc., are measured at amortized cost.

Other accounting information

Cash flow statement
The cash flow statement of the ALK Group is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and marketable securities at the beginning and at the end of the financial year.

The cash effect of acquisitions and divestments is shown separately under cash flows from investing activities. In the cash flow statement, cash flows concerning acquired companies are recognised from the date of acquisition, while cash flows concerning divested companies are recognised until the date of divestment.

Cash flows from operating activities are stated as net profit, adjusted for non-cash operating items and changes in working capital, less the income tax paid and plus net financial items.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of companies and financial assets as well as purchase, development, improvement and sale of intangible and tangible assets.

Cash flows from financing activities comprise changes to the parent company's share capital and related costs as well as the raising and repayment of loans, instalments on interest-bearing debt, lease liabilities, purchase of treasury shares, and settlement of share options and payment of dividends.

Cash flows in currencies other than the functional currency are recognised in the cash flow statement using average exchange rates for the individual months if these are a reasonable approximation of the actual exchange rates at the transaction dates. If this is not the case, the actual exchange rates for the specific days in questions are used.

Cash and marketable securities comprise cash and short-term securities subject to an insignificant risk of changes in value less any overdraft facilities that are an integral part of the ALK Group's cash management.

Segment reporting
Based on the internal reporting used by the Board of Management to assess the results of operations and allocation of resources, the ALK Group has identified one operating segment 'Allergy treatment', which is in accordance with the way the activities are organised and managed. In addition, the disclosures in the financial statements include a breakdown of revenue by product line and a geographical breakdown of revenue and non-current assets.

Definitions and ratios
The key ratios have been calculated in accordance with generally accepted financial ratios applied by financial analysts. Definitions are shown on page 85.

Notes to the consolidated financial statements

2 Significant accounting estimates and judgements

In the preparation of the consolidated financial statements according to IFRS, Management is required to make certain estimates as many financial statement items cannot be reliably measured, but must be estimated. Such estimates comprise judgements made on the basis of the most recent information available at the reporting date.

It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to supplementary information, additional experience or subsequent events. Similarly, the value of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to set out e.g. a course of events that reflects Management's assessment of the most probable course of events.

In the consolidated financial statements for 2019, Management considers the following key accounting estimates and related judgements material to the assets and liabilities recognised in the consolidated financial statements.

Recoverable amount of goodwill
The assessment of whether goodwill is impaired requires a determination of the value in use of the cash-generating unit to which the goodwill amounts have been allocated. The determination of the value in use requires estimates of the expected future cash flow of the cash-generating unit and a reasonable discount rate. See note 12 in the consolidated financial statements for information on goodwill impairment test.

At 31 December 2019, the carrying amount of goodwill is DKK 461 million (2018: DKK 465 million).

Inventories
The valuation of inventories includes Management's assessment of the saleability of the finished goods, and the quality of raw materials to be used in production process. If the expected sales price less any completion costs and costs to execute sales (net realizable value) of inventories is lower than the carrying amount, the inventories are written down to net realizable value. When assessing salability and net realizable value, Management uses estimates for future sales and related costs.

Further, work in progress and manufactured goods and goods for resale are measured at cost including indirect production costs. The indirect production costs are measured using a standard cost method. This is reviewed regularly to ensure reliable measurement of employee costs, capacity utilisation, cost drivers and other relevant factors. When including the indirect productions costs for capitalisation, Management makes estimates about cost of production, standard cost variances, cost drivers and capacity utilisation. Changes in these parameters may have a significant impact on the gross margin and the overall valuation of work in progress and manufactured goods and goods for resale.

The indirect production costs capitalized under inventories amounted to DKK 348 million at the end of 2019 (2018: DKK 355 million). At 31 December 2019, the carrying amount of inventories is DKK 1,056 million (2018: DKK 993 million).

Tax
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. The ALK Group recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilized against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilize tax losses in the joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S) and based on forecasts with positive results for the coming years in relation to the joint taxation. This assessment includes estimates of future taxable income in ALK and other members of the joint Danish taxation scheme with the Lundbeck Foundation.

At 31 December 2019, the value of the total net deferred tax asset is DKK 616 million (2018: DKK 542 million). It includes a net deferred tax asset in Denmark related to tax losses carried forward of DKK 372 million (2018: DKK 313 million).

Complying with tax rules, when conducting business globally, can be complex as the interpretation of legislation and case law may change over time or may not always be clear. Management's judgements are applied to assess the possible effect of exposures and the possible outcome of disputes or interpretational uncertainties when transfer pricing disputes with local tax authorities may occur. Dialogue with local tax authorities, tax advisors, business plans and knowledge of the business are key parameters for Management to estimate the tax assets and liabilities.

At 31 December 2019, the ALK Group recognises uncertain tax positions as part of non-current tax and deferred tax. The actual outcome may deviate and depends on the result of litigation and settlements with the relevant local tax authorities.

Outsourced clinical trials
Clinical trials, which are outsourced to Clinical Research Organisations ("CROs"), take several years to complete. As such, Management is required to make estimates based on the progress and costs incurred to-date for the ongoing trials. Judgements are made in determining the amount of costs to be expensed during the period, or recognised as prepayments or accruals on the balance sheet.

At 31 December 2019, DKK 105 million is recognised as accrued expenses and DKK 166 million as prepayments on the balance sheet (2018: prepayments of DKK 42 million). In 2019, clinical trials expenses of DKK 144 million have been recognised in the income statement (2018: DKK 42 million).

Leases
The parent company's land and buildings include buildings on land leased from Scion DTU A/S, Hørsholm in Denmark. The leases are open-ended, and as part of the transition to IFRS 16, Management has assessed that lease terms for these leases are 15 years. This is considered a significant judgement as a change hereto would have a significant impact on the lease liabilities and right-of-use assets.

Notes to the consolidated financial statements

3 Revenue and segment information

Based on the internal reporting used by Management to assess profit and allocation of resources, the ALK Group has identified one operating segment "Allergy treatment" which complies with the organisation and management of the activities. Even though revenue within the operating segment "Allergy treatment" can be divided by product lines and markets, the main part of the activities within production, research and development, sales and marketing and administration are shared by the ALK Group as a whole.

	Europe		North America		International markets		Total	
Amounts in DKKm	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
SCIT/SLIT-drops	1,454	1,464	306	270	58	43	1,818	1,777
SLIT-tablets	735	558	85	59	153	54	973	671
Other products and services	179	198	278	254	26	15	483	467
Total revenue	**2,368**	**2,220**	**669**	**583**	**237**	**112**	**3,274**	**2,915**
Sale of goods							3,240	2,895
Royalties							34	11
Services							-	9
Total revenue							**3,274**	**2,915**

Of total revenue, DKK 75 million (2018: DKK 70 million) is derived from Denmark.

The ALK Group's non-current tangible and intangible assets are distributed among the following geographical markets:

	Europe		North America		International markets		Total	
Amounts in DKKm	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Non-current tangible and intangible assets	**1,616**	**1,564**	**800**	**740**	**5**	**5**	**2,421**	**2,309**

Of total non-current tangible and intangible assets, DKK 1,227 million relates to assets in Denmark (2018: DKK 1,209 million). The geographical information on assets is based on asset location.

Notes to the consolidated financial statements

4 Staff costs

Amounts in DKKm	2019	2018
Wages and salaries	1,303	1,218
Pensions, cf. note 18	111	103
Other social security costs, etc.	185	175
Share-based payments, cf. note 5	34	20
Total	**1,633**	**1,516**
Staff costs are allocated as follows:		
Cost of sales	621	587
Research and development expenses	209	207
Sales and marketing expenses	555	509
Administrative expenses	205	182
Included in the cost of assets	43	31
Total	**1,633**	**1,516**
Remuneration to Board of Management:*		
Salaries	16	15
Cash bonuses	9	8
Pensions	1	1
Expensed costs regarding share-based payments, cf. note 5	13	6
Total	**39**	**30**
Remuneration to Board of Directors:**		
Remuneration to Board of Directors	4	4
Employees		
Average number (FTE)	2,385	2,341
Number year end (FTE)	2,391	2,379

* The expensed costs include DKK 6 million related to adjustment in the share options and performance share units expected to vest.

** The total remuneration to the Board of Directors includes remuneration for participation in the Audit Committee DKK 350,000 (2018: DKK 350,000), the Remuneration Committee DKK 350,000 (2018: DKK 350,000) and the Scientific Committee DKK 150,000 (2018: DKK 150,000). The remaining remuneration relates to regular Board of Directors activities.

5 Share-based payments

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

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

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

Share option programme
The ALK Group has established share option plans for the Board of Management and a number of key employees as part of a retention programme. Each share option entitles the holder to acquire one existing B share of DKK 10 nominal value in the company. The exercise of options is conditional upon certain targets being met. The target achievement is met upon the holder of the option not having resigned at the time of exercise.

From 2017 plans, the share option programme is further subject to the fulfilment of strategic key performance indicators with a threshold below which there will be no payout, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the payout up to 100%. In the 2017 and 2018 plans, including the special incentive plan 2018, for a number of share options (46,641) the payout can be increased by 300%.

The options can be exercised in the trading windows following the release of annual and interim reports. Share options are considered sufficiently covered by treasury shares.

Notes to the consolidated financial statements

5 Share-based payments – continued

Specification of outstanding options:

	Board of Management units	Other key personnel units	Total units	Weighted average exercise price DKK
2019				
Outstanding options at 1 January	104,020	94,869	198,889	841
Additions	14,898	10,509	25,407	1,120
Exercised	(20,655)	(38,570)	(59,225)	818
Expired	-	(1,350)	(1,350)	474
Cancellations	-	(3,165)	(3,165)	852
Outstanding options at 31 December	**98,263**	**62,293**	**160,556**	**904**

The total number of vested outstanding share options amounts to 42,513 units.

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

	Board of Management units	Other key personnel units	Total units	Weighted average exercise price DKK
2018				
Outstanding options at 1 January	69,700	90,585	160,285	797
Additions	41,320	35,159	76,479	793
Exercised	(7,000)	(27,775)	(34,775)	605
Expired	-	(3,000)	(3,000)	379
Cancellations	-	(100)	(100)	776
Outstanding options at 31 December	**104,020**	**94,869**	**198,889**	**841**

The total number of vested share options amounts to 82,068 units.

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

5 Share-based payments – continued

Outstanding options have the following characteristics:

	Options units	Weighted average exercise price DKK	Vested as per	Exercise period
2013 Plan	1,300	487	1 Mar 2016	1 Mar 2016-1 Mar 2020
2014 Plan	5,025	776	1 Mar 2017	1 Mar 2017-1 Mar 2021
2015 Plan	10,500	846	1 Mar 2018	1 Mar 2018-1 Mar 2022
2016 Plan	8,620	1,087	1 Mar 2019	1 Mar 2019-1 Mar 2023
2017 Sign on plan, CEO	17,068	924	1 Jan 2018	1 Jan 2018-1 Jan 2024
2017 Plan	20,091	1,025	1 Mar 2020	1 Mar 2020-1 Mar 2022
2018 Plan	30,873	793	1 Mar 2021	1 Mar 2021-1 Mar 2023
2018 Plan - one-time	43,341	793	1 Mar 2021	1 Mar 2021-1 Mar 2023
2019 Plan	23,738	1,127	1 Mar 2022	1 Mar 2022-1 Mar 2024
Outstanding at 31 December	**160,556**			

Notes to the consolidated financial statements

5 Share-based payments – continued

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

The calculated market price at the grant date is based on the Black & Scholes model for valuation of options.

The assumptions for the calculation of the market price of share options at the grant date are as follows:

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

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

** The expected volatility rate is based on the historical volatility.

5 Share-based payments – continued

Performance share programme

The ALK Group has established performance share programmes for the Board of Management and a number of key employees as part of a retention programme. The final transfer of ownership of the shares takes place three years after the grant, provided that the ALK Group achieves the targets for vesting.

The performance share programme is subject to the fulfilment of strategic key performance indicators with a threshold below which there will be no payout, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the payout up to 100%. In the 2017 and 2018 plans, including the special incentive plan 2018, for a number of performance shares (13,608) the payout can be increased by 300%.

	Board of Management units	Other key personnel units	Total units
2019			
Outstanding conditional and performance shares at 1 January	11,301	30,546	41,847
Additions	3,200	10,797	13,997
Settled	(932)	(3,377)	(4,309)
Cancellations	-	(1,709)	(1,709)
Outstanding performance shares at 31 December	**13,569**	**36,257**	**49,826**
2018			
Outstanding conditional and performance shares at 1 January	5,326	17,575	22,901
Additions	8,305	17,144	25,449
Settled	(2,330)	(4,173)	(6,503)
Outstanding conditional and performance shares at 31 December	**11,301**	**30,546**	**41,847**

The performance shares have been granted at the average market price of the share for the five trading days immediately preceding the date of grant. The performance shares have been granted at DKK 1,072 per share (2018: DKK 745 per share). Performance shares are considered sufficiently covered by treasury shares.

Notes to the consolidated financial statements

5 Share-based payments – continued

Outstanding performance shares have the following characteristics:

	Performance shares units	Vested as per
2017 Plan	11,685	1 Mar 2020
2018 Plan	15,932	1 Mar 2021
2018 Plan one-time	8,708	1 Mar 2021
2019 Plan	13,501	1 Mar 2022
Outstanding at 31 December	**49,826**	

6 Depreciation, amortisation and impairment

Amounts in DKKm	**2019**	2018
Depreciation, amortisation and impairment allocation:		
Cost of sales	170	140
Research and development expenses	7	39
Sales and marketing expenses	35	26
Administrative expenses	43	27
Total	**255**	**232**

Impairment amounts to DKK 30 million (2018: DKK 39 million), which relates to impairment of tangible assets (2018: tangible assets DKK 7 million and intangible assets DKK 32 million). Impairment of tangible assets is related to the divestment of ALK's part-share of a formulation production line for tablets to production partner Catalent effective 30 June 2019.

The impairment of tangible assets is recognised as cost of sales.

7 Other operating income

Other operating income of DKK 16 million includes income of DKK 15 million from sale of the North American Veterinary Business Unit effective from 30 November 2019. See note 11 for further information.

Other operating income in 2018 included DKK 27 million from refund of VAT in Germany related to previous years caused by a court decision about VAT deductibility for certain rebates.

8 Financial income and expenses

Amounts in DKKm	**2019**	2018
Interest income*	16	9
Financial income from financial assets measured at amortised cost	16	9
Interest income on marketable securities	1	3
Currency gains, net	5	12
Total financial income	**22**	**24**
Interest expenses**	34	25
Financial expenses from financial liabilities measured at amortised cost	34	25
Loss on sale of marketable securities	5	6
Total financial expenses	**39**	**31**

* In 2019, DKK 11 million included in interest income refer to net interest on uncertain tax positions.

** In 2019, DKK 8 million included in interest expenses refer to IFRS 16 interest expenses.

Notes to the consolidated financial statements

9 Tax on profit/(loss) for the year

Amounts in DKKm	2019	2018
Current income tax	51	167
Adjustment of deferred tax	(32)	(104)
Prior year adjustments	-	4
Total	**19**	**67**
Profit/(loss) before tax	(31)	(103)
Income tax, tax rate of 22% (2018: 22%)	(7)	(23)
Effect of deviation of foreign subsidiaries' tax rate relative to Danish tax rate	41	64
Permanent differences	3	10
Adjustment of deferred tax due to coming year change of tax rate	3	3
Other taxes and adjustments	1	9
Change in valuation of net tax assets	(22)	-
Prior year adjustments	-	4
Tax on profit/(loss) for the year	**19**	**67**

Tax related to equity comprises an income of DKK 27 million (2018: an income of DKK 8 million) and other comprehensive income comprises an income of DKK 8 million (2018: loss of DKK 7 million).

10 Adjustments for non-cash items

Amounts in DKKm	2019	2018
Tax on profit/(loss)	19	67
Financial income and expenses	17	4
Share-based payments	39	20
Reversal of accounting gain on sale of companies and operations	(14)	-
Depreciation, amortisation and impairment	255	232
Other adjustments*	73	(3)
Total	**389**	**320**

* Other adjustments include provision for transition period for the Danish Holiday Act of DKK 19 million, non-cash transactions related to the divestment of ALK's part-share of a formulation production line for tablets to production partner Catalent of DKK 24 million, and other provisions and pensions of DKK 30 million including restructuring cost for ALK's Italian entity ALK-Abelló S.p.A.

11 Sale of companies and operations

Effective 30 November 2019, ALK has sold its North American Veterinary Business Unit to Spectrum Veterinary LLC. The operation was previously an integrated part of ALK's subsidiaries in North America.

The North American Veterinary Business Unit specialises in products for veterinary use.

Amounts in DKKm	2019
Sales price	**30**
Carrying value of sold net assets	
Patents, trademarks and rights	4
Goodwill	7
Plant and machinery	3
Sold net assets	**14**
Transaction cost	1
Net gain on sales of companies and operations included in other operating income in the income statement	**15**

Out of the ALK Group's total revenue of DKK 3,274 million in 2019, DKK 20 million is attributable to the North American Veterinary Business Unit.

Notes to the consolidated financial statements

12 Intangible assets

Amounts in DKKm	Goodwill	Software	Patents, trademarks and rights	Other	Total
2019					
Cost beginning of year	488	371	256	132	1,247
Currency adjustments	2	2	4	4	12
Additions	-	7	-	13	20
Disposals	-	(8)	(20)	(1)	(29)
Sale of companies and operations, cf. note 11	(7)	-	(21)	-	(28)
Transfer to/from other groups	-	46	-	(46)	-
Cost year end	**483**	**418**	**219**	**102**	**1,222**
Amortisation and impairment beginning of year	23	238	178	83	522
Currency adjustments	(1)	2	3	-	4
Amortisation for the year	-	22	26	11	59
Amortisation on disposals	-	(8)	(20)	-	(28)
Amortisation on sale of companies and operations, cf note 11	-	-	(17)	-	(17)
Amortisation and impairment year end	**22**	**254**	**170**	**94**	**540**
Carrying amount year end	**461**	**164**	**49**	**8**	**682**
2018					
Cost beginning of year	484	347	255	186	1,272
Currency adjustments	4	3	1	1	9
Additions	-	6	-	46	52
Disposals	-	(18)	-	(68)	(86)
Transfer to/from other groups	-	33	-	(33)	-
Cost year end	**488**	**371**	**256**	**132**	**1,247**
Amortisation and impairment beginning of year	23	238	153	106	520
Currency adjustments	-	-	1	-	1
Amortisation for the year	-	18	24	11	53
Amortisation and impairment on disposals	-	(18)	-	(66)	(84)
Impairment for the year, cf. note 6	-	-	-	32	32
Amortisation and impairment year end	**23**	**238**	**178**	**83**	**522**
Carrying amount year end	**465**	**133**	**78**	**49**	**725**

12 Intangible assets – continued

Goodwill
Goodwill has been subject to an impairment test, which has been submitted to the Audit Committee for subsequent approval by the Board of Directors. The impairment test performed in 2019 revealed no need for impairment of goodwill.

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

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

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

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

The calculated value in use shows that future earnings and cash flows fully support the book value of total net assets, including goodwill.

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

Other intangible assets
Other intangible assets cover minor finished development projects and development projects in progress including software development projects.

Notes to the consolidated financial statements

13 Property, plant and equipment

Amounts in DKKm	Land and buildings*	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
2019					
Cost beginning of year	1,339	903	241	364	2,847
Initial application of IFRS 16 beginning of year, cf. note 23	266	-	-	-	266
Currency adjustments	12	4	1	2	19
Additions	32	7	12	125	176
Lease contract modifications	(1)	-	-	-	(1)
Disposals	(120)	(153)	(24)	(1)	(298)
Sale of companies and operations, cf. note 11	-	(4)	-	-	(4)
Transfer to/from other groups	5	50	14	(69)	-
Cost year end	**1,533**	**807**	**244**	**421**	**3,005**
Depreciation and impairment beginning of year	461	521	189	92	1,263
Currency adjustments	3	3	-	(1)	5
Depreciation for the year	83	67	16	-	166
Depreciation of disposals	(56)	(119)	(22)	-	(197)
Depreciation on sale of companies and operations, cf. note 11	-	(1)	-	-	(1)
Impairment for the year, cf. note 6	19	11	-	-	30
Depreciation and impairment year end	**510**	**482**	**183**	**91**	**1,266**
Carrying amount year end	**1,023**	**325**	**61**	**330**	**1,739**
of which financing costs					-
Value of land and buildings subject to mortgages					209

* Land and buildings include buildings on land leased from Scion DTU A/S, Hørsholm in Denmark. The leases are open-ended and the estimated lease terms are 15 years.

13 Property, plant and equipment – continued

Amounts in DKKm	Land and buildings	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
2018					
Cost beginning of year	1,162	830	259	482	2,733
Currency adjustments	17	8	2	12	39
Additions	7	16	11	92	126
Disposals	(3)	(10)	(37)	(1)	(51)
Transfer to/from other groups	156	59	6	(221)	-
Cost year end	**1,339**	**903**	**241**	**364**	**2,847**
Depreciation and impairment beginning of year	412	452	206	85	1,155
Currency adjustments	3	-	1	-	4
Depreciation for the year	48	75	17	-	140
Depreciation of disposals	(2)	(6)	(35)	-	(43)
Impairment for the year, cf. note 6	-	-	-	7	7
Depreciation and impairment year end	**461**	**521**	**189**	**92**	**1,263**
Carrying amount year end	**878**	**382**	**52**	**272**	**1,584**
of which financing costs					-
Value of land and buildings subject to mortgages					221

Notes to the consolidated financial statements

13 Property, plant and equipment – continued

Specification of right-of-use assets according to IFRS 16 Leases:

Amounts in DKKm	Land and buildings	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
2019					
Cost beginning of year	114	-	1	-	115
Initial application of IFRS 16, beginning of year, cf. note 23	266	-	-	-	266
Additions	28	-	1	-	29
Lease contract modifications	(1)	-	-	-	(1)
Disposals	(114)	-	-	-	(114)
Cost year end	**293**	**-**	**2**	**-**	**295**
Depreciation beginning of year	32	-	-	-	32
Depreciation for the year	35	-	1	-	36
Depreciation of disposals	(32)	-	-	-	(32)
Impairment for the year	-	-	-	-	-
Depreciation year end	**35**	**-**	**1**	**-**	**36**
Carrying amount year end	**258**	**-**	**1**	**-**	**259**

Notes to the consolidated financial statements

14 Deferred tax

Amounts in DKKm	Intangible assets	Tangible assets	Current and other assets	Liabilities	Tax losses carried forward	Total
2019						
Carrying amount beginning of year	31	(46)	166	41	350	542
Impact from initial application of IFRIC 23	6	-	-	17	(33)	(10)
Adjustment to prior years' deferred tax	(1)	1	17	(17)	7	7
Adjustment of receivables from affiliates	-	-	-	-	10	10
Adjustment of deferred tax due to coming year change of tax rate	-	1	-	(4)	-	(3)
Recognised in the income statement, net	(25)	(56)	1	43	46	9
Change in valuation of net tax assets	-	-	-	26	-	26
Recognised in other comprehensive income, net	-	-	-	11	(3)	8
Recognised in equity, net (share-based payments)	-	-	22	-	5	27
Carrying amount year end	**11**	**(100)**	**206**	**117**	**382**	**616**
2018						
Carrying amount beginning of year	73	(40)	120	32	260	445
Adjustment to prior years' deferred tax	(22)	(1)	(30)	36	8	(9)
Adjustment of deferred tax due to coming year change of tax rate	-	(1)	1	(2)	-	(2)
Recognised in the income statement, net	(20)	(4)	66	(18)	82	106
Recognised in other comprehensive income, net	-	-	-	(7)	-	(7)
Recognised in equity, net (share-based payments)	-	-	9	-	-	9
Carrying amount year end	**31**	**(46)**	**166**	**41**	**350**	**542**

Deferred tax consists of deferred tax assets of DKK 620 million (2018: DKK 548 million) and deferred tax liabilities of DKK 4 million (2018: DKK 6 million).

The ALK Group recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilized against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilize tax losses in the joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S). See note 2 for further information.

Unrecognised deferred tax assets comprising tax losses carried forward amounts to DKK 19 million and primarily relates to the US (2018: DKK 19 million).

Notes to the consolidated financial statements

15 Inventories

Amounts in DKKm	2019	2018
Raw materials*	214	220
Work in progress	447	372
Manufactured goods and goods for resale	395	401
Total	**1,056**	**993**
Amount of write-down of inventories during the year	53	44
Amount of reversal of write-down of inventories during the year**	21	2

The total cost of materials included in cost of sales amounted to DKK 326 million (2018: DKK 300 million).

The net book value of inventory not expected to be sold in 2020 is estimated at DKK 263 million (2018: DKK 117 million).

* A minor part of ALK's raw material inventory contains biological assets from agricultural activities. Due to missing market on which a fair value can be established these products are not valuated.

**Reversal of provision for slow moving items, sold in 2019.

16 Trade receivables

Amounts in DKKm	2019					2018
	Days past due					
	Not due	<180 days	180-360	>360 days	Total	Total
Expected credit loss rate*	0%	8%	50%	83%		
Trade receivables (gross)	358	51	4	6	419	339
Loss allowance	1	4	2	5	12	11
Trade receivables (net)	**357**	**47**	**2**	**1**	**407**	**328**
Loss allowance:						
Balance beginning of year					11	12
Change in allowances during the year					7	3
Realised losses during the year					(6)	(4)
Loss allowance, year end					**12**	**11**

Loss allowance for doubtful trade receivables is based on an individual assessment of the receivables.

* The expected credit loss rate is the average expected credit loss rate.

Notes to the consolidated financial statements

17 Share capital and earnings per share

Amounts in DKKm	2019	2018
Share capital		
The share capital consists of:		
A shares	9	9
AA shares	1	1
B shares	101	101
Total nominal value	**111**	**111**

Each A and AA share carries 10 votes, whereas each B share carries 1 vote.

Amounts in DKKm	2019	2018
Treasury shares		
Treasury shares beginning of year (B-shares), units	263,203	285,806
Sale of treasury shares, units	(22,509)	(22,603)
Treasury shares year end (B-shares), units	**240,694**	**263,203**
Proportion of share capital year end	2.2%	2.4%
Nominal value year end	2.4	2.6
Market value year end	394	253
Earnings per share		
The calculation of earnings per share is based on the following:		
Net profit/(loss)	(50)	(170)
Number in units:		
Average number of issued shares	11,141,196	11,141,196
Average number of treasury shares	(252,533)	(274,695)
Average number of shares used for calculation of earnings/(loss) per share	**10,888,663**	**10,866,501**
Average number of dilutive shares	10,949,777	10,909,156
Earnings/(loss) per share (EPS)	**(4.59)**	**(15.64)**
Earnings/(loss) per share, diluted (DEPS)	**(4.59)**	**(15.64)**

According to a resolution passed by the parent company at the annual general meeting, the parent company is allowed to purchase treasury shares, equal to 10% of the share capital. The parent company has purchased treasury shares in connection with the issuance of share-based benefit programmes.

At year end 2019 the amount of A shares was 920,760 (2018: 920,760), AA shares 92,076 (2018: 92,076) and B shares 10,128,360 (2018: 10,128,360). All shares have a nominal value of DKK 10.

18 Pensions and similar liabilities

The ALK Group has entered into defined contribution plans as well as defined benefit plans.

In defined contribution plans, the ALK Group is obliged to pay a certain contribution to a pension fund or the like but bears no risks regarding the future development in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee.

The ALK Group sponsors defined benefit plans for qualifying employees of its subsidiaries in Germany and Switzerland. The ALK Group bears the risks regarding the future development in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee.

Amounts in DKKm	2019	2018
Costs related to defined contribution plans	103	94
Costs related to defined benefit plans	8	9
Total	**111**	**103**
Present value of funded pension obligations	20	15
Fair value of plan assets	(13)	(11)
Funded pension obligations, net	**7**	**4**
Present value of unfunded pension obligations	221	182
Pension obligations	**228**	**186**
Anniversary liabilities	11	11
Pension related to bonus	37	28
Indemnity fund	1	1
Other liabilities*	20	1
Pension obligations and similar liabilities, year end	**297**	**227**

Plan assets consist of assets placed in pension companies. Assets are placed in investments classified as other assets than shares, bonds and property by the pension companies, and are not measured at quoted prices.

The weighted average duration of the pension obligations is 20.6 years (2018: 19.95 years).

* Other liabilities include liability related to the transition period for the new Danish holiday act of DKK 19 million.

Notes to the consolidated financial statements

18 Pensions and similar liabilities – continued

Amounts in DKKm	2019	2018
The principal assumptions used for the actuarial valuations		
Discount rate range of 0.1% - 0.8% (weighted average rate)	0.8%	1.9%
Expected future rate of salary increase range of 1% - 2% (weighted average rate)	2.0%	3.0%
Assumed life expectations on retirement age for current pensioners (years based on weighted average)*:		
Males	21.6	20.4
Females	25.4	24.0
Assumed life expectations on retirement age for current employees (future pensioners) (years based on weighted average)*:		
Males	23.2	22.0
Females	27.3	26.9
Sensitivity analysis:		
Significant actuarial assumptions for determining the defined benefit obligation		
Discount rate, effect in case of increase in range of 0.5% - 1%**	(41)	(33)
Discount rate, effect in case of decrease in range of 0.5% - 1%**	54	43
Salary, effect in case of 0.5% increase	4	4
Salary, effect in case of 0.5% decrease	(4)	(3)
Life expectancy, effect in case of increase by 1 year*	11	8
Life expectancy, effect in case of decrease by 1 year*	(11)	(8)
Movements in the present value of the defined benefit obligation in the current year		
Opening defined benefit obligation	15	14
Current service costs	1	1
Actuarial (gains)/losses from changes in financial assumptions	2	(1)
Benefits paid	1	-
Currency translation adjustment	1	1
Closing defined benefit obligation	**20**	**15**

18 Pensions and similar liabilities – continued

Amounts in DKKm	2019	2018
Movements in the fair value of the plan assets in the current year		
Opening fair value of plan assets	11	10
Contribution from plan participants	1	1
Benefits paid	1	-
Closing fair value of plan assets	**13**	**11**
Movements in present value of unfunded pension obligations in the current year		
Opening present value of unfunded pension obligations	182	177
Current service costs	4	4
Interest costs	3	3
Actuarial (gains)/losses from changes in financial assumptions	37	-
Actuarial (gains)/losses arising from experience adjustments	(3)	(3)
Actuarial (gains)/losses arising from demographic adjustments	-	2
Benefits paid	(2)	(1)
Closing present value of unfunded pension obligations	**221**	**182**
Amount recognised as staff expenses in the income statement		
Current service costs	5	5
Net interest expense	3	3
Total	**8**	**8**
Amount recognised in comprehensive income in respect of defined benefit plans		
Actuarial (gains)/losses	37	(3)
Total	**37**	**(3)**

The expected contribution for 2020 for the defined benefit plans is DKK 8 million (2019: DKK 8 million).

The most recent actuarial valuations of the defined benefit liability were carried out by external independent actuary agents at 31 December 2019.

* Based on national statistics for mortality.
** Based on actuarial reports with different rates.

Notes to the consolidated financial statements

19 Mortgage debt, bank loans and financial loans

	Carrying amount		Fair value	
Amounts in DKKm	**2019**	2018	**2019**	2018
Debt to mortgage credit institutions secured by real property				
Mortgage debt is due as follows*:				
Within 1 year	18	17	18	18
From 1-5 years	71	71	72	73
After 5 years	188	205	191	211
Total	**277**	**293**	**281**	**302**
Bank loans and financial loans				
Bank loans and financial loans are due as follows:				
Within 1 year	-	-	-	-
From 1-5 years	448	449	448	449
After 5 years	-	-	-	-
Total	**448**	**449**	**448**	**449**
Mortgage debt, bank loans and financial loans are recognised accordingly:				
Non-current liabilities	707	725		
Current liabilities	18	17		

Fair value for mortgage debt is measured by level 1 input (quoted prices in active markets) from the fair value hierarchy and fair value for bank loans is measured by level 2 input (inputs other than quoted markets that are observable) from the fair value hierarchy.

Beginning of 2018 the ALK Group extended its financial resources with a DKK 600 million credit facility which runs until the end of 2022. By the end of 2019 none of this resource was drawn upon.

* Change in mortgage debt during the year of DKK 16 million is cash flows from financing activities (2018: DKK 17 million).

20 Other provisions

Amounts in DKKm	**2019**	2018
Other provisions beginning of year	28	59
Provisions made during the year*	19	1
Used during the year**	(22)	(26)
Reversals during the year	(2)	(6)
Other provisions, year end	**23**	**28**
Other provisions are recognised as follows:		
Non-current liabilities	-	2
Current liabilities	23	26
Other provisions, year end	**23**	**28**

* Provisions made in 2019 include DKK 16 million related to restructuring of ALK's Italian entity ALK-Abelló S.p.A.

** Includes DKK 20 million (2018: DKK 21 million) related to the acquisition of the operating assets in Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC in 2017. The amount was fully paid in 2019.

Notes to the consolidated financial statements

21 Changes in working capital

Amounts in DKKm	2019	2018
Change in inventories	(54)	(102)
Change in receivables and prepayments	(200)	(39)
Change in short-term payables	159	67
Cash flow from changes in working capital	**(95)**	**(74)**

22 Contingent liabilities and commitments

Contingent liabilities
The Board of Management assesses that the outcome of pending claims and other disputes will have no material impact on the ALK Group's financial position.

The ALK Group operates in a wide variety of jurisdictions, in some of which the tax law is subject to varying interpretations and potentially inconsistent enforcement. As a result, there can be practical uncertainties in applying tax legislation to the ALK Group's activities. Whilst the ALK Group considers that it operates in accordance with applicable tax law, there are potential tax exposures in respect of its operations, the impact of which cannot be reliably estimated, but could be material.

Joint taxation scheme
ALK-Abelló A/S is included in a joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S) and its Danish subsidiaries. The Danish companies are joint and several liable for the joint taxation liability. The joint taxation liability covers income taxes and withholding taxes on dividends, royalties and interest. The joint taxation liability is capped at an amount equal to the share of the capital of the company directly or indirectly owned by the ultimate parent company.

Commitments
Land and buildings provided as security vis-à-vis for mortgage debt amount to DKK 209 million (2018: DKK 221 million) out of mortgage debt of DKK 277 million (2018: DKK 293 million).

23 Leases

The ALK Group's leases primarily comprise agreements regarding land and buildings. The lease terms are of various length and may contain extension and termination options. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. When determining the lease term for lease agreements containing extension and termination options, Management considers circumstances that create an economic incentive to exercise an extension option, or not. Options are only included in the lease term if the option is reasonably certain to be exercised.

Initial impact of IFRS 16:

Amounts in DKKm	1 January 2019
Operating lease obligations at 31 December 2018	**379**
Minimum lease payments on finance lease liabilities at 31 December 2018	1
Relief option for short-term leases	(3)
Relief option for leases of low-value assets (including cars)	(35)
Lease contract modifications	(12)
Other	(18)
Gross lease liabilities at 1 January 2019	**312**
Effect of discounting	(45)
Lease liabilities at 1 January 2019	**267**
Present value of finance lease liabilities at 31 December 2018	(1)
Additional lease liabilities from initial application of IFRS 16 as at 1 January 2019	**266**

The lease liabilities were discounted as at 1 January 2019. The weighted average incremental borrowing rate was 3.2%.

Leases in the income statement:

Amounts in DKKm	2019
Expenses from short-term leases	4
Expenses from low-value assets (including cars)	18
Depreciation of right-of-use assets	36
Interest expenses on lease liabilities	8
Total	**66**

Cash outflow related to lease agreements was DKK 37 million.

Notes to the consolidated financial statements

23 Leases – continued

Lease liabilities

Amounts in DKKm	2019
Lease liabilities expire as follows:	
Within 1 year	31
From 1-5 years	113
After 5 years	121
Total lease liabilities	**265**

24 Financial risks, liquidity risks and the use of derivative financial instruments

Financial risk management policy

As a result of operations, investments and financing, the ALK Group is exposed to exchange and interest rate changes. ALK-Abelló A/S manages the ALK Group's financial risks centrally and coordinates the ALK Group's cash management, including the raising of capital and investment of excess cash. The ALK Group complies with a policy, approved by the Board of Directors, to maintain a low risk profile, ensuring that the ALK Group is only exposed to foreign exchange rate risk, liquidity risk, interest rate risk, and credit risk in connection with its commercial activities.

Capital structure

The ALK Group manages its capital to ensure that all entities will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. The capital structure of the ALK Group consists of net debt and equity.

The ALK Group's Risk Committee reviews the capital structure annually. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

Foreign exchange rate risk

Foreign exchange rate risk arises due to imbalances between revenue and expenses in each individual currency. Foreign exchange rate exposure relating to future transactions and assets and liabilities is evaluated and hedged through matching of payments received and paid in the same currency and through forward exchange rate contracts and currency options. This serves to limit the impact on the financial results of any exchange rate fluctuations. The exchange rate exposure relating to net investments in foreign subsidiaries is not hedged by forward exchange contracts. The ALK Group hedges significant exchange rate exposures regarding future sales and purchase of goods in the coming six months in accordance with the ALK Group's policy.

24 Financial risks, liquidity risks and the use of derivative financial instruments – continued

The general objective of the ALK Group's foreign exchange risk management is to limit and delay any adverse impact of exchange rate fluctuations on earnings and cash flows and thus increase the predictability of the financial results. The most significant financial risk relates to exchange rate fluctuations. The greatest exposure is to USD and in 2019, 19% (2018: 19%) of the revenue was denominated in USD. The sales are not deemed to be exposed to EUR due to Denmark's participation in the European Exchange Rate Mechanism.

The ALK Group is exposed to exchange rate risks when intercompany balances and net assets of foreign subsidiaries are translated into DKK. In accordance with the ALK Group's accounting policies, such currency translation adjustments are recognised in the income statement and in other comprehensive income, respectively.

The ALK Group has no open exchange rate hedge contracts at 31 December 2019 or 31 December 2018.

Sensitivity to a 10% increase in USD exchange rate

The table below shows the estimated effect of a 10% increase in the USD exchange rate on revenue, EBITDA and equity levels, respectively.

Amounts in DKKm	Revenue	EBITDA	Equity
31 December 2019			
USD	approx.+75	approx. 0	approx. +95
31 December 2018			
USD	approx. +70	approx. 0	approx. +35

A decrease in the exchange rates will have a corresponding adverse effect.

Notes to the consolidated financial statements

24 Financial risks, liquidity risks and the use of derivative financial instruments – continued

Net positions

Amounts in DKKm	Cash and marketable securities	Receivables	Liabilities	Amount hedged	Net position
31 December 2019					
DKK	(75)	237	(865)	-	(703)
USD	62	97	(163)	-	(4)
EUR	232	276	(1,184)	-	(676)
GBP	32	12	(33)	-	11
SEK	8	16	(13)	-	11
Other	57	74	(62)	-	69
Total	**316**	**712**	**(2,320)**	**-**	**(1,292)**
31 December 2018					
DKK	84	76	(512)	-	(352)
USD	71	96	(117)	-	50
EUR	181	288	(1,000)	-	(531)
GBP	2	13	(9)	-	6
SEK	8	14	(12)	-	10
Other	50	49	(36)	-	63
Total	**396**	**536**	**(1,686)**	**-**	**(754)**

24 Financial risks, liquidity risks and the use of derivative financial instruments – continued

Liquidity risk
In connection with the ALK Group's ongoing financing of operations, including refinancing, efforts are made to ensure adequate and flexible liquidity. This is guaranteed by placing free funds in credit-worthy, liquid, interest bearing instruments of relatively short durations in accordance with the ALK Group's policy.

The liquidity risk is considered to be minimal due to the ALK Group's current capital structure.

Liquidity exposure

			Revaluation/payment date		
Amounts in DKKm	Carrying amount	Total cash flow*	Within 1 year	From 1-5 years	After 5 years
31 December 2019					
Mortage debt, bank loans and financial loans	725	777	29	546	202
Trade payables	81	81	81	-	-
Other financial liabilities**	1,045	1,085	820	131	134
Financial liabilities	**1,851**	**1,943**	**930**	**677**	**336**
31 December 2018					
Mortage debt, bank loans and financial loans	742	807	29	556	222
Trade payables	135	135	135	-	-
Other financial liabilities	548	548	548	-	-
Financial liabilities	**1,425**	**1,490**	**712**	**556**	**222**

* Total cash flow includes interests.
** Other financial liabilities include lease liabilities of DKK 265 million.

Notes to the consolidated financial statements

24 Financial risks, liquidity risks and the use of derivative financial instruments – continued

Interest rate risk
The ALK Group does not hedge its interest rate exposure, as this is not considered to be financially viable.

Concerning the ALK Group's financial assets and financial liabilities, the earlier of the contractual revaluation and redemption date is applied. Effective interest rates are stated on the basis of the current level of interest rates on the balance sheet date.

Interest rate exposure

Amounts in DKKm	Carrying amount	Currency	Expiry date	Fixed/ floating	Effective interest rate
31 December 2019					
Cash	316	Various		Floating	(0.91)-1.32
Interestbearing assets	**316**				
Mortgage debt	277	DKK	2035	Floating	1.2
Leasing liabilities	265	EUR, USD	2020-2033	Fixed	2.0
Bank loans and financial loans	448	EUR	2022	Fixed	1.8
Interestbearing liabilities	**990**				
31 December 2018					
Cash and marketable securities	396	Various		Floating	(1.15)-4.4
Interestbearing assets	**396**				
Mortgage debt	293	DKK	2035	Floating	1.2
Leasing liabilities	1	EUR, USD	2020-2023	Fixed	4.2-6.6
Bank loans and financial loans	448	EUR	2022	Fixed	1.8
Interestbearing liabilities	**742**	-	-	-	-

An increase in the interest rate of 1 percentage point on mortgage debt, bank loans and financial loans would decrease net profit and equity by approximately DKK 6 million (2018: decrease of DKK 6 million). An increase in the interest of 1 percentage point on cash would increase net profit and equity by approximately DKK 3 million (2018: increase of DKK 2 million).

24 Financial risks, liquidity risks and the use of derivative financial instruments – continued

Credit risk
The ALK Group's primary credit exposure is related to trade receivables and cash. The ALK Group has no major exposure relating to one single customer or business partner. According to the ALK Group's policy for assuming credit exposure, all customers and business partners are credit rated regularly. Trade receivables are monitored at the local level and are distributed across a number of markets and customers. Therefore, the credit risk is considered to be low.

The credit exposure in connection with financial instruments is managed by contracting only with institutions with satisfactory credit-worthiness, in Denmark as well as abroad. In accordance with ALK's credit-risk policy, such institutions must have an acknowledged credit rating.

Embedded derivative financial instruments
The ALK Group has made a systematic review of contracts that might contain terms that would make the contract or parts thereof a derivative financial instrument. The review did not lead to recognition of derivative financial instruments relating to the contracts.

Notes to the consolidated financial statements

24 Financial risks, liquity risks and the use of derivative financial instruments – continued

Amounts in DKKm		2019	2018
Categories of financial instruments			
Financial assets			
Financial assets measured at fair value through profit or loss (FVTPL)			
Marketable securities		-	100
Total		**-**	**100**
Financial assets measured at amortised cost	**Impairment method**		
Receivables from affiliates	12m ECL	116	28
Securities and receivables	12m ECL	46	9
Trade receivables	Lifetime ECL (simplified approach)	407	328
Other receivables	12m ECL	133	113
Cash		316	296
Total		**1,018**	**774**
Financial liabilities			
Financial liabilities measured at amortised cost			
Mortgage debt		277	293
Bank loans and financial loans		448	449
Lease liabilities		265	-
Trade payables		81	135
Other payables		760	539
Total		**1,831**	**1,416**

Measurement and fair value hierarchy
All financial assets and liabilities, except for marketable securities, are measured at cost or amortised cost. The carrying amounts for these approximate fair value.

Marketable securities are measured at fair value on unadjusted quoted prices in active markets for items identical to the asset being measured (level 1 input).

There are no financial derivatives used in 2019 or 2018.

25 Fees to the ALK Group's auditors

Amounts in DKKm	2019	2018
Fees to the auditors, Deloitte, appointed at the annual general meeting:		
Audit services	3	3
Other opinions	1	-
Tax advisory services	2	1
Other services	5	2
Total	**11**	**6**

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the ALK Group amounts to DKK 6.7 million. This includes fees for consultancy services related to optimisation projects for the amount of DKK 5 million, which was preapproved by the Audit Committee. The remaining amount relates to review of tax returns, review of other tax related matters, and other general financial accounting matters.

Notes to the consolidated financial statements

26 Related parties

Related party exercising control
Party exercising control is ALK-Abelló A/S' majority shareholder, the Lundbeck Foundation (Lundbeckfond Invest A/S).

Other related parties comprise ALK's Board of Management and Board of Directors, companies in which the majority shareholder exercises control, and such companies' subsidiaries, in this case H. Lundbeck A/S and Falck A/S and their subsidiaries.

Transactions and balances
Transactions and balances with the parent company's majority shareholder:

- ALK-Abelló A/S received DKK 18 million (2018: DKK 28 million) concerning outstanding company tax from the Lundbeck Foundation (Lundbeckfond Invest A/S). The company tax relates to ALK-Abelló A/S, ALK-Abelló Nordic A/S, and ALK e-com A/S.

- Receivables from affiliates relate to outstanding company tax of DKK 116 million (2018: DKK 28 million) covering ALK-Abelló A/S, ALK-Abelló Nordic A/S, and ALK e-com A/S.

Transactions with key management personnel consist of remuneration and exercise of share options, see notes 4 and 5 of the consolidated financial statements.

No other transactions have taken place during the year with Board of Directors, Board of Management, major shareholders or other related parties.

27 Events after the reporting period

No events have occured after the reporting period, that influence the evaluation of the consolidated financial statements.

28 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 5 February 2020.

Notes to the consolidated financial statements

29 List of companies in the ALK Group

31 December 2019 (wholly owned unless otherwise stated). Nominal capital in 1,000.

Denmark

ALK-Abelló A/S (parent) CVR no. 63 71 79 16 Horsholm	DKK 111,412
ALK-Abelló Nordic A/S CVR no. 31 50 12 96 Horsholm	DKK 1,000
ALK e-com A/S CVR no. 39 26 68 81 Horsholm	DKK 500

Sweden

ALK-Abelló Nordic A/S (branch)
Kungsbacka

Norway

ALK-Abelló Nordic A/S (branch)
Oslo

Finland

ALK-Abelló Nordic A/S (branch)
Helsinki

United Kingdom

ALK-Abelló Ltd. Reading	GBP 1

France

ALK-Abelló S.A. Varennes-en-Argonne	EUR 160

Germany

ALK-Abelló Arzneimittel GmbH Hamburg	EUR 1,790

Austria

ALK-Abelló Allergie-Service GmbH Linz	EUR 73

Switzerland

ALK-Abelló AG Volketswil	CHF 100
ALK AG Volketswil in Liquidation	CHF 1,000

Turkey

ALK ilaç ve Alerji Ürünleri Ticaret Anonim Şirketi Istanbul	TRY 50

Netherlands

ALK-Abelló B.V. Nieuwegein	EUR 23

Spain

ALK-Abelló S.A. Madrid	EUR 4,671

Italy

ALK-Abelló S.p.A. Milan Wholly owned by ALK-Abelló S.A.	EUR 2,000

Poland

ALK-Abelló Sp. z o.o. Krakow	PLN 325

USA

ALK-Abelló, Inc. Austin, Texas	USD 50
ALK-Abelló, Source Materials, Inc. Spring Mills, Pennsylvania	USD 329
OKC Allergy Supplies Inc. Oklahoma City, Oklahoma Wholly owned by ALK-Abelló Inc.	USD 1
OKC Crystal Laboratory Inc. Oklahoma City, Oklahoma Wholly owned by ALK-Abelló, Source Materials, Inc.	USD 1

Canada

ALK-Abelló Pharmaceuticals, Inc. Mississauga, Ontario	CAD 3,000

China

ALK-Abelló A/S (branch) Hong Kong	
ALK Medical Consulting Services Company Limited Shanghai	CNY 500

Slovakia

ALK Slovakia s.r.o. Bratislava	EUR 5

Czech Republic

ALK Slovakia s.r.o. – od štěpný zavod (branch)
Prague

Definitions

Term	Definitions
Gross margin – %	Gross profit x 100 / Revenue
EBITDA margin – %	EBITDA x 100 / Revenue
Net asset value per share	Net asset value / Number of shares end of period
Invested capital	Intangible assets, tangible assets, inventories and current receivables reduced by liabilities except for mortgage debt, bank loans and financial loans
Return on equity (ROE) – %	Net profit / (loss) for the period x 100 / Average equity
Pay-out ratio – %	Proposed dividend x 100 / Net profit / (loss) for the year
Earnings / (loss) per share (EPS)	Net profit / (loss) for the period / Average number of outstanding shares
Earnings / (loss) per share diluted (DEPS)	Net profit / (loss) for the period / Average number of outstanding shares diluted
Cash flow per share (CFPS)	Cash flow from operating activities / Average number of outstanding shares
ROIC incl. goodwill – %	Operating profit x 100 / Average invested capital incl. goodwill
Price earnings ratio (PE)	Share price / Earnings per share
Markets	Geographical markets (based on customer location): • Europe comprises the EU, Norway and Switzerland • North America comprises the USA and Canada • International markets comprise Japan, China and all other countries

The definitions are aligned with generally accepted financial ratios applied by financial analysts. The definitions are part of the Management's review.

Alternative Performance Measures

Amounts in DKKm	**2019**	2018
EBITDA reconciliation to net profit / (loss)		
Net profit / (loss) for the year	(50)	(170)
Tax	19	67
Financial income	(22)	(24)
Financial expenses	39	31
Depreciation, amortisation and impairment	255	232
EBITDA	**241**	**136**
Net asset value		
Equity	3,176	3,179
Net asset value	**3,176**	**3,179**
Invested capital reconciliation		
Intangible assets	682	725
Tangible assets	1,739	1,584
Inventories	1,056	993
Trade receivables	407	328
Receivables from affiliates	116	28
Income tax receivables	9	58
Other receivables	133	113
Prepayments	211	83
Pensions and similar liabilities	(297)	(227)
Lease liabilities (non-current)	(234)	-
Other provisions (non-current)	-	(2)
Deferred tax liabilities	(4)	(6)
Income taxes (non-current)	(143)	-
Lease liabilities (current)	(31)	-
Trade payables	(81)	(135)
Income taxes	(20)	(9)
Other provisions (current)	(23)	(26)
Other payables	(760)	(539)
Deferred income	(1)	-
Invested capital	**2,759**	**2,968**

Contents of the parent company financial statements

Parent company financial statements

Notes

Income statement

Amounts in DKKm	Note	**2019**	2018
Revenue	2	856	925
Cost of sales	3,4	747	729
Gross profit		**109**	**196**
Research and development expenses	3	458	350
Sales and marketing expenses	3,4	176	829
Administrative expenses	3,16	117	104
Operating profit/(loss) (EBIT)		**(642)**	**(1,087)**
Income from investments in subsidiaries	10	773	37
Financial income	5	80	79
Financial expenses	5	33	28
Profit/(loss) before tax (EBT)		**178**	**(999)**
Tax on profit/(loss)	6	(129)	(227)
Net profit/(loss)	17	**307**	**(772)**

Balance sheet

Amounts in DKKm	Note	31 Dec. 2019	31 Dec. 2018
Assets			
Non-current assets			
Intangible assets			
Intangible assets	7	137	138
		137	**138**
Tangible assets			
Land and buildings	8	346	304
Plant and machinery	8	158	209
Other fixtures and equipment	8	22	16
Property, plant and equipment in progress	8	186	152
		712	**681**
Other non-current assets			
Investments in subsidiaries	10	1,058	729
Receivables from affiliates		731	1,512
Securities and receivables		43	5
Deferred tax assets	9	356	357
Income tax receivables		133	-
		2,321	**2,603**
Total non-current assets		**3,170**	**3,422**
Current assets			
Inventories	11	418	359
Trade receivables		5	2
Receivables from affiliates		419	473
Other receivables		113	49
Prepayments		180	48
		1,135	**931**
Cash		188	130
Marketable securities		-	100
Total cash and marketable securities		**188**	**230**
Total current assets		**1,323**	**1,161**
Total assets		**4,493**	**4,583**

Amounts in DKKm	Note	31 Dec. 2019	31 Dec. 2018
Equity and liabilities			
Equity			
Share capital		111	111
Retained earnings		1,822	1,498
Capitalized development costs		5	15
Total equity		**1,938**	**1,624**
Liabilities			
Mortgage debt	12	259	276
Bank loans and financial loans	12	448	448
Pensions and similar liabilities		19	-
Lease liabilities	13	129	-
Payables to affiliates		109	-
Non-current liabilities		**964**	**724**
Mortgage debt	12	18	17
Trade payables		21	42
Payables to affiliates		1,225	1,971
Lease liabilities	13	9	-
Other payables		318	205
Current liabilities		**1,591**	**2,235**
Total liabilities		**2,555**	**2,959**
Total equity and liabilities		**4,493**	**4,583**

Statement of changes in equity

Amounts in DKKm	Share capital	Retained earnings	Reserve for capitalised development costs	Proposed dividend	Total equity
2019					
Equity at 1 January 2019	111	1,498	15	-	1,624
Impact from initial application of IFRIC 23	-	(46)	-	-	(46)
Appropriated from net profit	-	307	-	-	307
Share-based payments	-	39	-	-	39
Share options settled	-	(24)	-	-	(24)
Sale of treasury shares	-	11	-	-	11
Transfer to / (from) legal reserves	-	10	(10)	-	-
Tax related to items recognised directly in equity	-	27	-	-	27
Other transactions	**-**	**324**	**(10)**	**-**	**314**
Equity at 31 December 2019	**111**	**1,822**	**5**	**-**	**1,938**

See note 17 in the consolidated financial statements for information on treasury shares.

Notes to the parent company financial statements

1 Accounting policies

General

The financial statements of the parent company ALK-Abelló A/S for the period 1 January – 31 December 2019 have been prepared in accordance with the Danish Financial Statements Act for large reporting class D enterprises.

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

Changes in accounting policies
The accounting policies are unchanged from last year except for the below mentioned.

IFRS 16 Leases
In order to obtain a true and fair view of the parent company's assets, liabilities and results, leases are recognised with effect from 1 January 2019, in accordance with IFRS 16 Leases. IFRS 16 does not distinguish between operating and financial leasing, but requires a leasing asset (right-of-use asset) and a lease liability to be recognised, with the exception of leases with a maturity of less than 12 months (short-term leases) and low value lease assets. In accordance with the Danish Financial Statements Act's transitional provisions, comparative figures have not been adjusted and the cumulative effect of the transition is recognised in equity at the beginning of 2019.

The application of IFRS 16 Leases has the following impact in the parent company's financial statements as of 31 December 2019:

- Increase in assets of DKK 137 million.
- Increase in liabilities (short-term and long-term) of DKK 138 million.
- Decrease in administration expenses of DKK 2 million (increased depreciation of DKK 10 million and decreased rental costs of DKK 12 million).
- Increase in interest costs of DKK 3 million.

IFRS 15 Revenue from Contracts with Customers
As a consequence of the application of IFRS 16 Leases, the parent company has implemented IFRS 15 Revenue from Contracts with Customers from 1 January 2019 in accordance with the Danish Financial Statements Act.

The application of IFRS 15 has had no impact on the parent company's financial statements.

IFRIC 23 Uncertainty over Tax Income Treatments
The interpretation IFRIC 23 Uncertainty over Tax Income Treatments has been applied by the parent company from 1 January 2019. The interpretation clarifies the accounting for uncertainties in income taxes and states that an entity should determine whether uncertain tax positions are assessed separately or as a group and the approach that reflects the most likely outcome is followed.

The implementation of IFRIC 23 from 1 January 2019 has resulted in a change to the net provision compared to 31 December 2018 and thus an adjustment to equity. Both tax assets and tax liabilities have increased as the provision for uncertain tax positions have been recognised as a net amount prior to 2019. From 1 January 2019, the uncertain tax positions are recognised on a gross basis.

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

With the application of IFRIC 23 a change in accounting policies for uncertain tax positions related to previous years has been recognised with the following impacts on the parent company's financial statements on 1 January 2019:

- Decrease in equity of DKK 46 million.
- Increase in tax receivables (non-current receivables) of DKK 78 million.
- Decrease in deferred tax assets of DKK 57 million.
- Increase in intercompany payables of DKK 67 million.

Accounting policies

The accounting policies are as described below.

Differences relative to the ALK Group's accounting policies
The parent company's accounting policies for recognition and measurement are in accordance with the ALK Group's accounting policies with the following exceptions:

Income statement

Results of investments in subsidiaries
Dividends from investments in subsidiaries are recognised in the parent company's financial statements when the right to the dividend finally vests, typically at the date of the company's approval in general meeting of the dividend of the company in question less any write-downs at the investments.

Balance sheet

Acquisition of activities from subsidiaries
Acquisition of activities from subsidiaries is accounted for using the purchase method. On initial recognition, goodwill is measured and recognised as the excess of the consideration transferred exceeding the fair value of the net assets acquired at the acquisition date.

Goodwill
Goodwill is measured at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected useful life, estimated at 10 years. This estimate was made on the basis of estimated useful lives of the assets acquired.

Investments in subsidiaries
Investments in subsidiaries are measured at cost.

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. In the event of indications of impairment, an impairment test is performed of investments in subsidiaries.

Capitalisation of development costs
A reserve for capitalisation of development costs less deferred tax is recognised in the statement of equity. The reserve contains development costs, less amortisation/impairment losses, and less deferred tax, capitalised since 1 January 2016.

Other accounting information

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.

Notes to the parent company financial statements

2 Revenue and segment information

Amounts in DKKm	2019	2018
Sale of goods	822	905
Royalties	34	11
Services	-	9
Total revenue	**856**	**925**
Europe	694	868
International markets	162	57
Total revenue	**856**	**925**

3 Staff costs

Amounts in DKKm	2019	2018
Wages and salaries	578	549
Pensions	53	51
Other social security costs, etc.	19	20
Share-based payments	26	13
Total	**676**	**633**
Staff costs are allocated as follows:		
Cost of sales	283	290
Research and development expenses	179	181
Sales and marketing expenses	77	48
Administrative expenses	104	92
Included in the cost of assets	33	22
Total	**676**	**633**
Remuneration to Board of Management and Board of Directors:		
See note 4 and 5 in the consolidated financial statements		
Employees		
Average number (FTE)	820	796
Number year end (FTE)	836	804

4 Impairment

Impairment amounts to DKK 262 million, of which DKK 232 million relates to investments in subsidiaries and DKK 30 million relates to tangible assets.

In the income statement, impairment of investments in subsidiaries of DKK 232 million has decreased the income from investments in subsidiaries. The impairment was calculated as the result of assessment of recoverable amount of the subsidiaries. Based on the assessment, the investments in the following subsidiaries were impaired: ALK-Abelló Source Materials Inc., ALK e-com A/S, and ALK ilac ve Alerji Ürünleri Ticaret Anonim Sirketi.

The impairment of tangible assets of DKK 30 million relates to ALK's divestment of its part-share of a formulation production line for tablets to production partner Catalent effective 30 June 2019. The impairment is recognised as cost of sales.

In 2018, impairment amounted to DKK 606 million, of which DKK 599 million related to intangible assets and DKK 7 million related to tangible assets. In the income statement for 2018, impairment of DKK 599 million was recognised as sales and marketing expenses and DKK 7 million as cost of sales. DKK 598 million, of the total DKK 599 million of impairment of intangible assets, related to the discontinuation of the US development for the current European version of the adrenaline auto-injector Jext®. Instead, ALK has pursued an alternative US anaphylaxis strategy. The impairment was based on an individual assessment of the net recoverable amount of the individual asset. As ALK believes there was no recoverable value for some of the assets, the full carrying value of the assets was impaired.

For the assets where ALK estimates that there is a recoverable amount, such amount was determined based on the fair value less cost to sell or the value in use of the respective asset.

Notes to the parent company financial statements

5 Financial income and expenses

Amounts in DKKm	2019	2018
Interest on receivables from affiliates	40	40
Other interest income*	14	7
Currency gain, net	26	32
Total financial income	**80**	**79**
Other interest expenses**	33	28
Total financial expenses	**33**	**28**

* In 2019, DKK 11 million included in other interest income refer to net interest related to uncertain tax positions.

**In 2019, DKK 3 million included in other interest expenses refer to IFRS 16 interest expenses.

6 Tax on profit/(loss) for the year

Amounts in DKKm	2019	2018
Current income tax	(114)	(22)
Adjustment of deferred tax	(18)	(194)
Prior year adjustments	3	(11)
Total	**(129)**	**(227)**
Profit/(loss) before tax	178	(999)
Income tax, tax rate of 22%	39	(220)
Non-taxable income	(179)	(6)
Non-deductible expenses	6	3
Prior year adjustments	3	(11)
Other taxes and adjustments	3	7
Change in valuation of net tax asset	(1)	-
Tax on profit/(loss) for the year	**(129)**	**(227)**

7 Intangible assets

Amounts in DKKm	Goodwill	Patents, trademarks and rights	Develop-ment cost*	Software and assets in progress	2019	2018
Cost beginning of year	867	89	27	292	1,275	1,291
Additions	-	-	-	20	20	38
Disposals	-	(20)	-	(8)	(28)	(54)
Transfer to/from other groups	-	13	(13)	-	-	-
Cost year end	**867**	**82**	**14**	**304**	**1,267**	**1,275**
Amortisation and impairment beginning of year	867	87	5	178	1,137	481
Amortisation for the year	-	-	1	19	20	111
Amortisation on disposals	-	(20)	-	(7)	(27)	(54)
Impairment for the year	-	-	-	-	-	599
Amortisation and impairment year end	**867**	**67**	**6**	**190**	**1,130**	**1,137**
Carrying amount year end	**-**	**15**	**8**	**114**	**137**	**138**

* The capitalised development cost relates to development of medical devices in relation to allergy treatment expected to generate ecomomic benefits in the coming years. At 31 December 2019, the capitalised development cost relates to the development of the European adrenaline auto-injector Jext®.

Notes to the parent company financial statements

8 Property, plant and equipment

Amounts in DKKm	Land and buildings	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	**2019**	2018
Cost beginning of year	576	527	21	237	1,361	1,347
Additions	148	1	2	72	223	52
Disposals*	(114)	(140)	(4)	-	(258)	(38)
Transfer to/from other groups	-	29	9	(38)	-	-
Cost year end	**610**	**417**	**28**	**271**	**1,326**	**1,361**
Depreciation and impairment beginning of year	272	318	5	85	680	648
Depreciation for the year	26	32	5	-	63	61
Depreciation of disposals	(53)	(102)	(4)	-	(159)	(36)
Impairment for the year**	19	11	-	-	30	7
Depreciation and impairment year end	**264**	**259**	**6**	**85**	**614**	**680**
Carrying amount year end	**346**	**158**	**22**	**186**	**712**	**681**
of which assets held under leases***	137	-	-	-	137	82
Value of land and buildings subject to mortgages					209	221

* DKK 94 million included in disposals for land and buildings and plant and machinery refers to sale of ALK's part-share of a formulation production line to production partner Catalent.

** See note 4 in the parent company financial statements.

*** Land and buildings in Denmark include buildings on land leased from Scion DTU A/S, Hørsholm. The leases are open-ended and the estimated lease terms are 15 years.

9 Deferred tax

Amounts in DKKm	Intangible assets	Tangible assets	Current and other assets	Liabilities	Tax losses carried forward	Total
2019						
Carrying amount beginning of year	66	(29)	(12)	1	331	357
Impact from initial application of IFRIC 23	(24)	-	-	-	(33)	(57)
Adjustment to prior years	-	(1)	(3)	-	4	-
Adjustment of receivables from affiliates	-	-	-	-	10	10
Recognised in the income statement, net	(26)	(29)	10	30	34	19
Recognised in equity, net (share-based payments)	-	-	22	-	5	27
Carrying amount year end	**16**	**(59)**	**17**	**31**	**351**	**356**
2018						
Carrying amount beginning of year	(54)	(27)	(19)	1	255	156
Adjustment to prior years	-	-	(1)	-	8	7
Recognised in the income statement, net	120	(2)	8	-	68	194
Carrying amount year end	**66**	**(29)**	**(12)**	**1**	**331**	**357**

ALK-Abelló A/S is included in a joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S) and its Danish subsidiaries.

ALK-Abelló A/S recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilized against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilize tax losses in the joint Danish taxation scheme with the Lundbeck Foundation (Lundbeckfond Invest A/S).

Notes to the parent company financial statements

10 Investments in subsidiaries

Amounts in DKKm	2019	2018
Cost beginning of year	905	905
Capital contribution in subsidiaries during the year	561	-
Cost year end	**1,466**	**905**
Write-down beginning of year	176	176
Write-down during the year, cf. note 4	232	-
Write-down year end	**408**	**176**
Carrying amount year end	**1,058**	**729**

In the income statement, income from investments in subsidiaries is dividends, which amounts to DKK 1,005 million (2018: DKK 37 million) less write-down of investments in subsidiaries which amounts to DKK 232 million (2018: DKK 0).

For an overview of all subsidiaries see note 29 in the consolidated financial statements.

11 Inventories

Amounts in DKKm	2019	2018
Raw materials	87	70
Work in progress	307	273
Manufactured goods and goods for resale	24	16
Total	**418**	**359**
Amount of write-down of inventories during the year	3	11
Amount of reversal of write-down of inventories during the year	8	2

12 Mortgage debt, bank loans and financial loans

Amounts in DKKm	2019	2018
Debt to mortgage credit institutions secured by real property		
Mortgage debt is due as follows:		
Within 1 year	18	17
From 1-5 years	71	71
After 5 years	188	205
Total	**277**	**293**
Bank loans and financial loans		
Bank loans and financial loans are due as follows:		
Within 1 year	-	-
From 1-5 years	448	448
After 5 years	-	-
Total	**448**	**448**

13 Lease liabilities

Amounts in DKKm	2019	2018*
Lease liabilities expire as follows:		
Within 1 year	9	14
From 1-5 years	34	51
After 5 years	95	120
Total	**138**	**185**

* The comparative figures have not been discounted and relates to operating lease liabilities.

Notes to the parent company financial statements

14 Contingent liabilities and commitments

In April 2019, ALK-Abelló A/S issued a hold-harmless letter to ALK -Abelló Arzneimittel GmbH regarding costs under an ongoing tax audit in Germany (unlimited guarantee).

In December 2019, ALK-Abelló A/S issued a compensation letter to ALK-Abelló S.p.A in Italy of approximately DKK 16 million related to the restructuring costs of ALK in Italy.

Provisions recognized as debt to affiliates have been made to cover such exposures and the mentioned possible uncertainties are in addition to what is already provided for.

For more information on contingent liabilities and commitments, see note 22 in the consolidated financial statements.

15 Related parties

ALK-Abelló A/S is included in the consolidated financial statements of the Lundbeck Foundation (Lundbeckfond Invest A/S).

ALK-Abelló A/S has had transactions with susidiaries during 2019. All subsidiaries are owned 100%. The transactions are eliminated in the consolidated financial statements.

Transactions with the majority shareholder are disclosed in note 26 in the consolidated financial statements. Apart from remuneration, no other transactions have taken place during the year with Board of Directors, Board of Management, major shareholders or other related parties.

Remuneration etc. to Board of Directors and Board of Management
For information on remuneration and exercise of share options for the ALK Group's Board of Directors and Board of Management, see note 4 and 5 in the consolidated financial statements.

16 Fees to ALK-Abelló A/S' auditors

Amounts in DKKm	**2019**	2018
Fees to the auditors, Deloitte, appointed at the annual general meeting:		
Audit services	2	1
Tax advisory services	1	-
Other services	5	1
Total	**8**	**2**

Other services include fees for consultancy services related to optimisation projects for the amount of DKK 5 million, which was preapproved by the Audit Committee. The remaining amount is related to various deliveries including compliance and advisory services.

17 Proposed appropriation of net profit/(loss)

Amounts in DKKm	**2019**	2018
Proposed dividend	-	-
Retained earnings	307	(772)
Total	**307**	**(772)**

18 Events after the reporting period

No events have occured after the reporting period, that influence the evaluation of the parent company financial statements.

Financial highlights and key ratios by quarter for the ALK Group* (unaudited)

Amounts in DKKm	2019	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Income statement					
Revenue	3,274	883	739	785	867
Cost of sales	1,382	368	293	386	335
Research and development expenses	466	149	124	94	99
Sales and marketing expenses	1,210	325	286	303	296
Administrative expenses	246	65	56	64	61
Other operating income	16	14	2	-	-
Operating profit/(loss) (EBIT)	(14)	(10)	(18)	(62)	76
Net financial items	(17)	(4)	7	(18)	(2)
Profit/(loss) before tax (EBT)	(31)	(14)	(11)	(80)	74
Net profit/(loss)	(50)	(29)	(14)	(96)	89
EBITDA	241	48	36	24	133
Average number of employees (FTE)	2,385	2,390	2,386	2,381	2,379
Revenue (Growth in revenue in local currency %)					
Europe	**2,368 (7)**	**638 (6)**	**525 (6)**	**555 (7)**	**650 (8)**
– SCIT/SLIT-drops	1,454 (-1)	403 (-1)	341 (7)	306 (-6)	404 (-3)
– SLIT-tablets	735 (32)	199 (36)	135 (18)	197 (36)	204 (34)
– Other products and services	179 (-10)	36 (-27)	49 (-21)	52 (-2)	42 (24)
North America	**669 (9)**	**173 (5)**	**176 (17)**	**164 (5)**	**156 (11)**
– SCIT/SLIT-drops	306 (8)	83 (11)	77 (2)	76 (13)	70 (8)
– SLIT-tablets	85 (38)	18 (44)	22 (47)	25 (19)	20 (50)
– Other products and services	278 (4)	72 (-8)	77 (29)	63 (-7)	66 (7)
International markets	**237 (112)**	**72 (201)**	**38 (80)**	**66 (42)**	**61 (198)**
– SCIT/SLIT-drops	58 (26)	15 (785)	4 (-69)	18 (-23)	21 (40)
– SLIT-tablets	153 (192)	52 (132)	28 (282)	41 (109)	32(1056)
– Other products and services	26 (68)	5 (25)	6 (56)	7 (48)	8 (178)
Total revenue	**3,274 (11)**	**883 (11)**	**739 (11)**	**785 (9)**	**867 (14)**
– SCIT/SLIT-drops	1,818 (1)	501 (4)	422 (4)	400 (-3)	495 (0)
– SLIT-tablets	973 (45)	269 (48)	185 (35)	263 (42)	256 (52)
– Other products and services	483 (0)	113 (-15)	132 (4)	122 (-3)	116 (18)

Amounts in DKKm	2019	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Balance sheet					
Total assets	5,495	5,495	5,091	5,120	5,233
Invested capital	2,759	2,759	3,271	3,236	3,290
Equity	3,176	3,176	3,193	3,173	3,296
Cash flow and investments					
Depreciation, amortisation and impairment	255	58	54	86	57
Cash flow from operating activities	132	192	7	(97)	30
Cash flow from investing activities	(157)	(33)	(42)	(35)	(47)
– of which investment in tangible and intangible assets	(167)	(63)	(39)	(35)	(30)
Free cash flow	(25)	159	(35)	(132)	(17)
Information on shares					
Dividend	-	-	-	-	-
Share capital	111	111	111	111	111
Shares in thousands of DKK 10 each	11,141	11,141	11,141	11,141	11,141
Share price, end period – DKK	1,635	1,635	1,409	1,530	1,100
Net asset value per share – DKK	285	285	287	285	296
Key figures					
Gross margin – %	58	58	60	51	61
EBITDA margin – %	7	5	5	3	15
Earnings/(loss) per share (EPS) – DKK	(4.6)	(2.7)	(1.3)	(8.8)	8.3
Earnings/(loss) per share diluted (DEPS) – DKK	(4.6)	(2.7)	(1.3)	(8.8)	8.2
Cash flow per share (CFPS) – DKK	12.1	17.6	0.6	(8.9)	2.8
Share price/Net asset value	5.7	5.7	4.9	5.4	3.7

* Management's review comprises this page as well as pages 1-46 and Financial highlights and key ratios for the ALK Group on page 14.

Definitions: see page 85.

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