ALK offentliggør årsrapport for 2020

- **ALK sluttede regnskabsåret 2020 med en vækst på 16% i fjerde kvartal. Væksten for hele året blev 8%.**
- **Resultaterne er i overensstemmelse med de senest udmeldte forventninger.**
- **For regnskabsåret 2021 forventer ALK en vækst i omsætningen på 8-12% i lokale valutaer.**
- **ALK fastholder og udbygger overordnet strategisk fokus.**

(Omsætningsvækst er organisk og målt i lokale valutaer. Sammenligningstal for 2019 er vist i parentes.)

ALK's *(ALKB: DC / OMX: ALK B / AKABY / AKBLF)* bestyrelse har godkendt selskabets årsrapport for 2020: ALK sluttede regnskabsåret 2020 stærkt med en organisk vækst på 16% i fjerde kvartal på trods af den fortsatte effekt af COVID. For hele regnskabsåret var omsætning og EBITDA i overensstemmelse med de senest udmeldte forventninger.

Højdepunkter for fjerde kvartal
- Omsætningen steg 16% til DKK 991 mio. (883), da ALK oplevede sit bedste fjerde kvartal nogensinde med en 55% stigning i tabletsalget i højsæsonen for behandling af nye patienter.
- Omsætningen i Europa og Internationale markeder steg henholdsvis 17% og 46%, mens salget i Nordamerika faldt 2% på grund af COVID.
- EBITDA steg til DKK 64 mio. (48) i overensstemmelse med de senest udmeldte forventninger.

Højdepunkter for regnskabsåret 2020
- Omsætningen steg organisk med 8% til DKK 3.491 mio. (3.274), det højeste niveau nogensinde. Udfasning af ældre produkter reducerede væksten med ca. 3 procentpoint.
- Det globale tabletsalg steg med 42%, og var modstandsdygtigt over for COVID. Omsætningen fra Japan steg med 80%, og væksten var ekstraordinær høj som følge af, at patienter skiftede fra et udgående, ældre produkt til tabletter samt planlagt lageropbygning i løbet af året.
- COVID havde en negativ effekt på salget af produkter, hvor behandlingen foregår på en klinik eller på et hospital. Effekten var størst i USA, hvor salget blev reduceret med mere end DKK 100 mio., hovedsagelig relateret til allergenekstrakter samt ikke-allergirelaterede life science-produkter. COVID gav ligeledes forsinkelser i ALK’s kliniske udviklingsaktiviteter som følge af udfordringer med rekruttering af deltagere til kliniske forsøg.
- EBITDA steg 64% til DKK 395 mio. (241) og afspejler højere salg, omkostningsbesparelser og udskudte udgifter på grund af COVID, inklusive kliniske udviklingsomkostninger på ca. DKK 100 mio. vedrørende aktiviteter, der oprindeligt var planlagt til 2020.
- Den fri pengestrøm var positiv og udgjorde DKK 56 mio. (minus 25), hvilket var bedre end forventet.

ALK’s administrerende direktør Carsten Hellmann siger: ”*Resultatet viser, at vores bestræbelser på at omdanne ALK til en stærkere og mere robust virksomhed bærer frugt. ALK leverede 8% vækst og viste sig modstandsdygtig over for en hidtil uset global udfordring – COVID – uden hvilken væksten ville have været stærkere. I hele transformationsperioden 2018-20 har vi konsekvent overgået vores forventninger, og vi går nu ind i den næste fase af ALK’s udvikling efter at have ryddet op og skabt et solidt vækstfundament.* ”

Forventninger til 2021
ALK forventer vækst i alle salgsregioner i 2021. Indtjening og fri pengestrøm vil blive påvirket af omkostninger og betalinger, der oprindeligt var planlagt til 2020, inklusive de tidligere nævnte udskudte forsknings- og udviklingsomkostninger.

- Omsætningen forventes at vokse 8-12% organisk i lokale valutaer med tabletter som primær vækstmotor.
- ALK antager, at COVID fortsat vil påvirke allergipatienternes mulighed og villighed til at besøge læger i første halvår, især i første kvartal.
- EBITDA forventes at blive DKK 325-425 mio. og vil være positivt påvirket af højere salg og stigende bruttomarginer, som dog modregnes af en betydelig stigning i forsknings- og udviklingsomkostninger til ca. DKK 650 mio. Stigningen inkluderer investeringer i at skabe en tilstedeværelse på markedet for fødevareallergi, samt en gradvis normalisering af salgs- og markedsføringsaktiviteter, når effekten af COVID mindskes.

Opdatering af strategi
Baseret på de bedre end forventede resultater for transformationsperioden 2018-20 er ALK's strategi for de næste tre år en årlig organisk vækst på 10% eller mere samt en stærk forbedring af indtjeningen. På længere sigt, forventer ALK at fortsætte udviklingen hen imod en EBIT-margin på ~25% i 2025, benævnt '25 i 25'.

Det overordnede strategiske fokus forbliver uændret og fokuserer på fire elementer: *Succeed in North America, Complete and commercialise tablet portfolio, Consumer engagement and new horizons* og *Optimise for excellence*. Disse elementer inkluderer nu strategiske aktiviteter mod at udvide ALK's førende position inden for luftvejsallergier, etablere en tilstedeværelse i fødevare-allergi (jordnødder og trænødder), udvide positionen inden for anafylaksi og forfølge ny forskning.

Carsten Hellmann siger: *"I den næste fase af ALK's udvikling vil vi levere yderligere vækst, samtidig med at vi øger EBIT-marginen, indtil vi når vores mål på ~25% i 2025 og dermed vil vi skabe et attraktivt afkast til vores aktionærer. Tabletter vil fortsat være den primære vækstmotor i lang tid fremover, men vi introducerer også initiativer med potentiale til at accelerere væksten inden for fem til ti år og gøre ALK til en meget større virksomhed og blive en ægte global allergileder."*

Planlagte forsknings- og udviklingsomkostninger inkluderer alle ovenstående innovations-programmer. Alligevel forventes det, at forsknings- og udviklingsomkostningerne i forhold til om-sætningen stadig vil falde på mellemlangt sigt, i takt med at ALK afslutter sine store kliniske studier med tabletporteføljen mod luftvejsallergier.

ALK-Abelló A/S

For yderligere oplysninger kontakt venligst:
Investor Relations: Per Plotnikof, tlf. 4574 7527, mobil 2261 2525
Presse: Jeppe Ilkjær, mobil 3050 2014

Audio cast
ALK afholder i dag kl. 14.00 (CET) en telefonkonference for investorer og analytikere, hvor ledelsen fremlægger resultater og forventninger samt besvarer spørgsmål. Mødet audiocastes på https://ir.alk.net/investors, hvor den tilhørende præsentation vil være tilgængelig kort før start. Deltagere i telefonkonferencen bedes ringe ind senest kl. 13.55 (CET). Danske deltagere skal ringe på tlf. 3544 5577, mens internationale deltagere skal ringe på +44 333 300 0804 eller +1 631 913 1422. Benyt venligst følgende deltager-pinkode: 67633761#.

Disse oplysninger er oplysninger, som ALK-Abelló A/S er forpligtet til at offentliggøre i henhold til EU's markedsmisbrugsforordning.

Annual report 2020

Allergy solutions for life

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Cover picture: Collection of catkins from ALK's birch tree orchard in Post Falls, Idaho. Allergenic source materials are the main ingredients of ALK's allergy immunotherapy products

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"2020 represented the final year of ALK's strategic transformation, and our focus remained on the relentless execution of our goals."

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2021 outlook
ALK expects growth across all sales regions in 2021.

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Tablet sales up strongly
Tablet sales grew by 42% in 2020 with ITULAZAX® leading the way.

p 22

Delivering sustainable growth and profitability
With the transformation complete, ALK is now entering the next phase of its strategic development.

After collection, the catkins are dried in special areas with carefully controlled environments

Introduction

2020 highlights

- Succeed in North America
- Complete and commercialise the tablet portfolio for all relevant ages
- Consumer engagement and new horizons
- Optimise for excellence
- Other

Jan

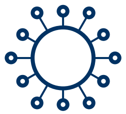
- New clinical Phase III trial for ALK's house dust mite tablet initiated in China

Feb

- ALK announces drug discovery partnership with American biotech company X-Chem

Mar

- Annual general meeting elects Anders Hedegaard as new Chairman of ALK's Board
- ALK launches klarify digital platform in Denmark
- COVID begins to impact business operations and clinical activities



Apr

- ALK launches klarify digital platform in the USA

May

- ALK launches klarify digital platform in Slovakia
- Q1 report: Revenue up 10% with tablet sales up 38% and EBITDA up 49%

Jun

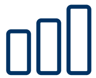
- ALK launches klarify digital platform in Ireland
- ALK secures rights to market OTIPRIO™ in the USA

klarify

Jul

Aug

- Q2 report: Revenue unchanged with tablet sales up 25% and EBITDA up 213%



Sep

Oct

- ALK launches ITULATEK™ tablet for tree pollen allergy in Canada
- RAGWIZAX® for ragweed allergy is approved for children in Europe

Nov

- ALK updates its full-year financial outlook to reflect improved earnings and cash flow as well as growth at the lower end of the guidance range
- Q3 report: Revenue up 7% with tablet sales up 52% and EBITDA up 61%

Dec

- RAGWITEK® for ragweed allergy is approved for children in Canada
- Full-year 2020 financial results: Revenue up 8% with tablet sales up 42% and EBITDA up 64%

ALK at a glance

ALK 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:
1923

Employees:
~2,500

Markets:
41

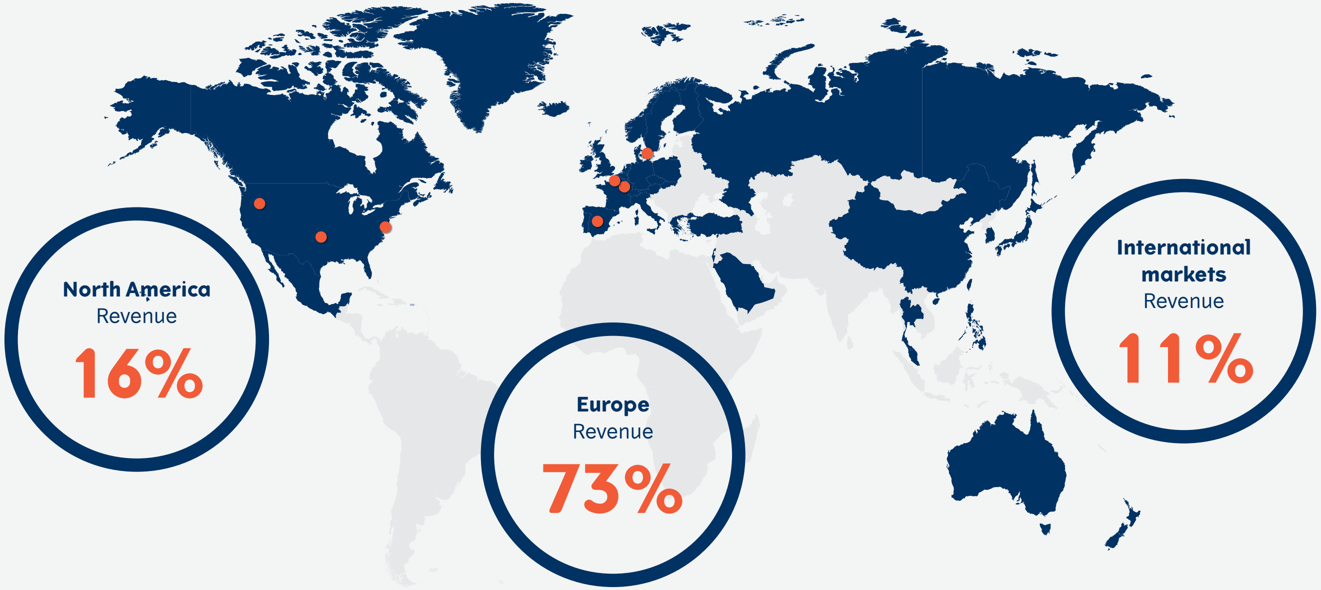
Patients in treatment with ALK products*:
~2m

The number of the most common global respiratory allergies covered by ALK's tablet portfolio:
5

Participated in clinical trials for the tablets:
>23,000

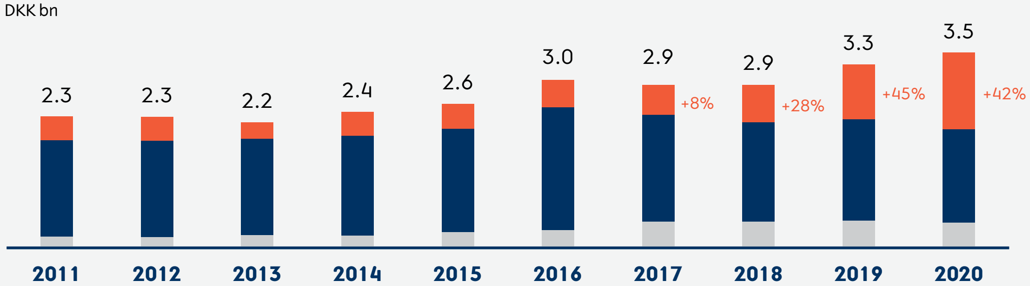
* Covering AIT and anaphylaxis

Global presence



Development in revenue

SLIT-tablets (% growth in local currencies)** | SCIT/SLIT-drops | Other



● **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

** Includes certain milestone payments from partnerships in the period 2011 to 2016

ALK's business model

As a global allergy solutions company with a century of knowledge and expertise, ALK helps people to take control of their allergies and their lives.

ALK

Raw materials
Allergenic source materials, such as grass pollen and house dust mites, are the main ingredients of our products. Every year the company grows, collects or harvests several tonnes of allergens.

Active Pharmaceutical Ingredient (API) production
Allergens undergo thorough analysis, standardisation and quality control, so that naturally occuring variations are minimised, ensuring quality and consistency in the finished products.

Finished production
APIs are purified, then formulated for subcutaneous injections, sublingual drops or sublingual tablets.

Packaging and distribution
Following careful quality control, the finished products are labelled, packaged and distributed.

Allergy solutions for life

Through information resources, services and products, ALK is working to support people with allergy early in their disease journey, smoothing the path to treatment.

People with allergies often endure a decade or more of symptoms before turning to AIT.

Key resources

Our people and culture: Around 2,500 highly-skilled employees live our cultural beliefs every day in their work to help more people with allergy.

Production/natural allergens: ALK's biological medicines are derived from natural resources, such as pollen, which it harvests, standardises and quality controls at its own facilities.

Scientific knowledge: ALK continuously applies its scientific knowledge to help people take control of their allergies and their lives.

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.

R&D: The completion of the tablet portfolio remains the primary focus of ALK's R&D efforts. In addition, the company is conducting research into innovative solutions for high-impact allergic conditions – such as food allergies.

Value created

Patients: ALK's tablet portfolio is helping to democratise AIT by covering the most common respiratory allergies, and 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.

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

Society: ALK addresses profound societal challenges by producing medicines for the leading cause 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.

Our investors: ALK works to create long-term value for its shareholders.

Megatrends shaping allergy

Most common chronic disease in the world

~500m

people around the world are affected and consume products and services worth more than DKK 100 billion annually.

1 in 10 AIT candidates receives treatment

~50m

people with allergy are so seriously affected that they are potential candidates for treatment with AIT, but fewer than **5m** people receive treatment today.

Climate change may increase number of people with severe allergy

Climate change means **longer pollen seasons** and more people suffering from severe allergies. Warmer weather is also causing ragweed to spread to new regions.

Urbanisation

Increasing migration to cities - especially in Asia - will further drive the prevalence of allergies such that ALK expects it to reach similar levels to Europe and the USA.

Shift towards evidence-based medicine

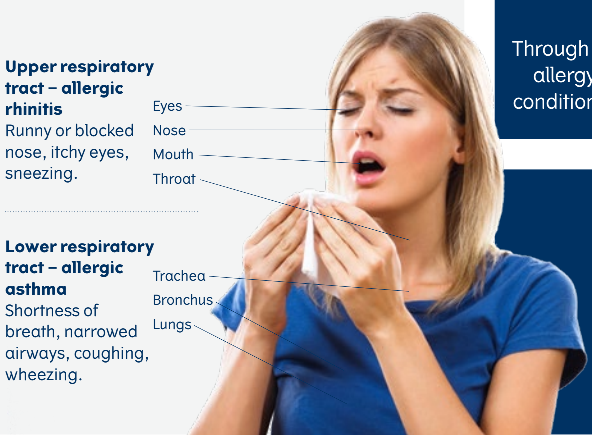
In Europe, authorities, prescribers and payers are increasingly turning to registered and documented products to treat allergies.

Allergy can lead to asthma

Asthma is one of the world's most common chronic childhood diseases. Preventing the progression of allergy into asthma would represent a major health breakthrough for millions of **children**.

Symptoms of respiratory allergies

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



Food allergy

If you are allergic to a specific food, exposure may trigger an acute allergic reaction - anaphylaxis - for which adrenaline auto-injectors are an effective rescue medication. In addition, recent advances in food AIT hold promise of a better life for people with food allergy.

Internet

The internet is the principal source of disease information for people with allergy: allergy is googled **>100 million times a year**.

The COVID effect

In 2020, the coronavirus pandemic and associated containment measures restricted the ability of people with allergy to visit clinics in many countries, increasing interest in telemedicine and **home-based treatment** options.

Digital engagement

Through ALK's klarify digital platform, people with allergy are able to get information about their condition and seek treatment in greater numbers.

Included in asthma guidelines

The Global Initiative for Asthma, **GINA**, recommends sublingual AIT as a treatment option in patients with house dust mite-induced allergic asthma.

ALK's allergy solutions

SLIT-tablets are the best documented AIT treatments

Since 2001, **23,000** people have taken part in ALK's clinical programmes. Its tablets are now the best documented AIT products in the world and are approved to the highest regulatory standards (FDA, EMA, PMDA etc).

Biological products

ALK's SLIT-tablets have been developed from natural ingredients and are strongly protected thanks to unique biological manufacturing processes and standardisation procedures.

Complete tablet portfolio

>80%

of adults with respiratory allergic disease requiring AIT are now covered by ALK's portfolio of five SLIT-tablets which can be taken at home.

Letter from the Chairman and CEO

2020 represented the final year of ALK's strategic transformation, and our focus remained on the relentless execution of our goals. When we first announced this transformation, we said that we wanted to 'fix and grow' ALK by cleaning up past issues and establishing strong foundations to support growth. What 2020 clearly demonstrated is that we have been able to deliver on both of those promises, as a refocused ALK delivered 8% revenue growth while also proving resilient to an unprecedented global challenge, without which, growth would have been even stronger. Revenue growth was fuelled in the large part by a further spectacular increase in sales from our tablet portfolio of 42%, with the newly launched ITULAZAX® leading the way.

Throughout the transformation period, we have consistently overperformed relative to our promises, exceeding the cumulative sales forecast for 2018-20 by more than DKK 700 million, delivering EBITDA that was ahead of target, and registering significantly improved cash flow that was more than DKK 700 million ahead of plan. The positive results are also there to see across our four areas of strategic focus:

Tablets are now the undisputed growth engine of ALK, delivering an average growth of 37% over three years (CAGR). Meanwhile, the addition of ITULAZAX® to our range completed our mission to cover the five major most important respiratory allergies. In North America, we have established a new sales infrastructure and launched ACARIZAX®/ ODACTRA®, although long-standing financial disincentives for prescribers, and the impact of COVID, have challenged commercial progress there. We have invested significantly to improve our patient engagement capabilities by developing our klarify digital ecosystem, which offers help and resources to the millions of people living with allergy so they can better understand and manage their condition. Importantly, klarify also enables us to mobilise patients to seek diagnosis and treatment in greater numbers. In addition to all of the above, we have advanced our site specialisation strategy and significantly pruned our portfolio, while also enhancing manufacturing efficiency, quality, and robustness. Together, these initiatives will secure long-term margin improvements.

> "Everyone at ALK can feel justifiably proud of the cultural and organisational transformation that they have contributed to over the past three years.
>
> **Anders Hedegaard, Chairman of the Board**

Continues

Sustainable growth and profitability

Having made the necessary, significant investments to transform ALK, we are now entering the next phase of the company's development, where we must carefully work to sustain long-term growth, while also returning ALK to profitability.

Our overall trajectory remains unchanged, because we are still convinced that the four priorities we established three years ago are the most critical to delivering future growth. Moreover, maintaining this continuity of focus will allow us to build on the foundations that we have now established, using our progress in each of these areas as a springboard from which to drive further growth.

Tablets will remain our primary growth driver for the foreseeable future, and effective life-cycle management will be important to supporting their continued strong performance. This means expanding into new countries – such as China, and extending coverage to new patient groups – including children. Clearly, the US market still has largely untapped potential for ALK and will require much creativity and persistence before it fulfils our expectations but, as in other parts of the world, if we support our efforts with an effective commercial strategy by expanding the reach of klarify and establishing a broader, scalable sales model, and we back that up with excellence and robustness within our organisation, there is much more that we can achieve with the assets already at our disposal.

Nevertheless, we have also taken care to incorporate initiatives that have the ability to accelerate our long-term development. Projects that may not make a significant contribution immediately, but which offer even further growth opportunities over the next five-to-10 years – such as an expanded offering in anaphylaxis, an entry into food allergy treatment, and research into innovative new treatments for high-impact allergic conditions. If we repeat our recent success in each of these areas over the coming years, we will establish a much larger ALK capable of continuously generating attractive shareholder returns.

The commitment of our employees has been instrumental to delivering on the very ambitious targets we set when the strategy was first announced, and everyone at ALK can feel justifiably proud of the cultural and organisational transformation that they have contributed to over the past three years. Moreover, the work we have done together to strengthen ALK's foundations has been critical to our ability to withstand the challenge of COVID, in response to which, not only did our employees swiftly implement our contingency plans and keep each other safe, but they also enabled ALK to maintain an uninterrupted supply of medicines for those who rely upon them.

We continue to value the trust placed in us by patients, prescribers, and investors, and we will maintain our efforts to sustain and strengthen that trust wherever possible. By successfully executing the next phase of our development, which is designed to deliver sustainable growth and profitability, we can continue our progress towards becoming the 'go-to' allergy company.

Anders Hedegaard
Chairman of the Board

Carsten Hellmann
President & CEO

"Having made the necessary, significant investments to transform ALK, we are now entering the next phase of the company's development, where we must carefully work to sustain long-term growth, while also returning ALK to profitability.

**Carsten Hellmann,
President & CEO**

2021 outlook

ALK expects growth across all sales regions in 2021, and revenue is projected to increase by 8-12% organically in local currencies, with the tablet portfolio expected to remain the key growth driver.

As a consequence of significant R&D cost delays from 2020 to 2021 due to the impact of COVID, and a gradual normalisation of capacity costs, operating profit (EBITDA) is expected to be close to that seen in 2020, despite revenue growth and an improved gross margin, attributable to tablet sales growth, and efficiencies.

ALK's working assumption is that the first half of 2021, and especially Q1, will continue to be impacted by COVID, especially in relation to allergy patients' ability and willingness to visit healthcare professionals. This is likely to continue to impact the sales of treatments that rely on more frequent clinic visits, while sales of tablets are expected to remain resilient.

Consequently, and as a result of the quarterly variations in 2020, fluctuations in revenue growth and earnings are likely from quarter to quarter during 2021.

Revenue
Organic growth is projected at 8-12% in local currencies. Discontinuations of legacy products are estimated to impact projected growth negatively by approximately 1 percentage point.

ALK expects broad-based growth across all sales regions. The mid-point of the projected revenue range assumes that sales in Europe will increase by around 10%. Sales in North America are expected to recover from the impact of COVID during 2021, growing in double digits, while sales growth in International markets is projected to temporarily slow to high single digits. This is mainly due to growth in Japan becoming more incremental following the extraordinarily high rates seen when Torii converted patients from an outgoing legacy product to the CEDARCURE™ tablet, and built up its inventories of CEDARCURE™ and MITICURE™.

Tablets, ALK's single largest product category, will remain key to growth in 2021. ALK plans for strong, double-digit tablet sales growth in Europe and North America, while growth in Japan will be slower for the reasons stated above. Taking these factors together, ALK estimates that global tablet sales growth will exceed 20% in 2021, continuing their strong positive trajectory.

In addition, ALK expects low single-digit sales growth from the remaining, non-tablet product portfolio, mainly driven by SCIT products, and double-digit sales growth from the Jext® adrenaline auto-injector.

Continues

2021 expectations

Revenue

8-12% organic growth – in local currencies

Growth across all sales regions

EBITDA

DKK 325-425 million

Operating profit (EBITDA) – close to that seen in 2020, mainly due to COVID-related delays in R&D activities

Substantial, DKK ~150 million increase in R&D costs

Free cash flow

DKK minus 200-300 million

vs. DKK +56 million in 2020

Impacted by payments postponed from 2020

The higher end of the projected revenue range assumes accelerated sales growth across all regions with tablets leading the way and faster market share gains, supported by a continuing regulatory transition towards evidence-based AIT products in key markets. The lower end of the revenue range incorporates pricing pressure, particularly in southern Europe, and/or more pronounced, ongoing negative effects from COVID.

Margins

The gross margin is expected to increase by 1-2 percentage points versus 2020, driven by efficiencies and higher sales – especially from tablets, with higher volumes absorbed by existing capacity. ALK will continue to allocate significant resources to the execution of its portfolio and site strategy, which designates each production facility as a centre of manufacturing excellence and is consolidating the number of active pharmaceutical ingredients used across the portfolio. These activities – in combination with increased sales and efficiencies that come from utilising higher-volume production lines – are expected to lead to substantial, long-term margin improvements.

Operating profit

Capacity costs will be influenced by a significant increase in R&D expenses in order to complete the clinical development of the tablet portfolio and gather further evidence for the tablets' use in children, adolescents and to secure registrations in new geographies. R&D costs for 2021 are estimated at around DKK 650 million, a significant increase over 2020, of which, approximately DKK 100 million relates to activities that were originally scheduled for 2020 but were postponed due to the impact of COVID on patient recruitment for clinical trials.

Sales and marketing activities are expected to gradually return to normal as the impact of COVID eases, particularly in the second half of the year. For the full year, costs are expected to rise in line with support for growth initiatives, although ALK will continue to seek to leverage its existing sales and marketing platforms to drive margin improvement.

On this basis, ALK expects the operating profit (EBITDA) to be in the range of DKK 325-425 million, which is largely level with 2020's EBITDA of DKK 395 million.

Free cash flow

Free cash flow is expected to be negative, in the region of DKK 200-300 million. Free cash flow will be impacted by changes in working capital, including a one-off repayment of up to DKK 175 million in accrued rebates, which was originally scheduled for 2020, as well as a deadline extension for the settlement of around DKK 50 million related to 2020 tax payments for employees in Denmark. CAPEX is projected at approximately DKK 300 million with investments focused on streamlining the manufacturing footprint and further specialisation at ALK's production facilities.

Other assumptions

The outlook does not include any revenue from acquisitions, new partnerships or the in-licensing of adjacent products and services, nor does it include any sizeable payments related to M&As or in-licensing activities. The outlook is based on current exchange rates, resulting in a negative effect of approximately 1 percentage point on reported revenue growth and an immaterial effect on reported EBITDA.

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, by their very nature, 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., consequences of the global COVID pandemic, 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 2020**	DKK 2019	DKK 2018	DKK 2017	DKK 2016	**EUR 2020**	EUR 2019
Income statement							
Revenue	3,491	3,274	2,915	2,910	3,005	469	438
EBITDA	395	241	136	253	642	53	32
Operating profit/(loss) (EBIT)	150	(14)	(96)	(80)	479	20	(2)
Net financial items	(49)	(17)	(7)	(42)	8	(7)	(2)
Profit/(loss) before tax (EBT)	101	(31)	(103)	(122)	487	14	(4)
Net profit/(loss)	25	(50)	(170)	(158)	270	3	(7)
Average number of employees (FTE)	2,419	2,385	2,341	2,213	2,010	2,419	2,385
Balance sheet							
Total assets	5,563	5,495	4,865	4,958	4,799	748	736
Invested capital	2,664	2,759	2,968	2,864	2,353	358	369
Equity	3,153	3,176	3,179	3,290	2,875	424	425
Cash flow and investments							
Depreciation, amortisation and impairment	245	255	232	333	163	33	34
Cash flow from operating activities	301	132	(95)	(387)	405	40	18
Cash flow from investing activities	(245)	(157)	(199)	(358)	(204)	(33)	(21)
– of which investment in intangible assets	(26)	(20)	(52)	(27)	(46)	(3)	(3)
– of which investment in tangible assetss	(196)	(147)	(126)	(240)	(179)	(26)	(20)
– of which acquisitions of companies and operations	-	(20)	(21)	(94)	-	-	(3)
Free cash flow	56	(25)	(294)	(745)	201	8	(3)

Amounts in DKKm/EURm**	**DKK 2020**	DKK 2019	DKK 2018	DKK 2017	DKK 2016	**EUR 2020**	EUR 2019
Information on shares							
Proposed dividend	-	-	-	-	51	-	-
Share capital	111	111	111	111	101	14.9	14.9
Shares in thousands of DKK 10 each	11,141	11,141	11,141	11,141	10,128	11,141	11,141
Share price, at year end	2,500	1,635	960	740	920	336.1	218.9
Net asset value per share	283	285	285	295	284	38.0	38.2
Key figures							
Gross margin – %	58.1	57.8	56.0	56.4	66.9	58.1	57.8
EBITDA margin – %	11.3	7.4	4.7	8.7	21.4	11.3	7.4
Return on equity (ROE) – %	0.8	(1.6)	(5.3)	(5.1)	9.7	0.8	(1.6)
ROIC incl. goodwill – %	5.5	(0.5)	(3.3)	(3.1)	20.0	5.5	(0.5)
Pay-out ratio – %	-	-	-	-	18.9	-	-
Earnings/(loss) per share (EPS)	2.3	(4.6)	(15.6)	(15.9)	27.5	0.3	(0.6)
Earnings/(loss) per share (DEPS), diluted	2.3	(4.6)	(15.6)	(15.9)	27.2	0.3	(0.6)
Cash flow per share (CFPS)	27.6	12.1	(8.7)	(39.0)	41.3	3.7	1.6
Price earnings ratio (PE)	1,092	(356)	(61)	(46)	33	1,092	(356)
Share price/Net asset value	8.8	5.7	3.4	2.5	3.2	8.8	5.7
Revenue growth – %							
Organic growth	8	11	1	(6)	19	8	11
Exchange rate differences	(1)	1	(1)	(1)	(2)	(1)	1
Acquisitions/divestments	-	-	-	4	-	-	-
Total growth revenue	7	12	-	(3)	17	7	12

* Management's review comprises pages 1-46 as well as 'Financial highlights and key ratios by quarter for the ALK Group' on page 97

** 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 2020 (EUR 100 = DKK 744) (31 December 2019: EUR 100 = DKK 747)

For definitions and reconciliation of alternative performance measures, see page 86

Read the ESG key figures overview here

Sales and market trends

Revenue grew 8% organically in local currencies, and was in line with the most recent outlook, issued in November 2020. Planned portfolio rationalisations reduced growth by around 3 percentage points in 2020. ALK also saw an impact on sales from COVID, particularly in the USA, where ALK estimates the total value of missed sales exceeded DKK 100 million.

(Comparative figures for 2019 are shown in brackets. Revenue growth rates are organic and stated in local currencies, unless otherwise indicated)

Overall revenue was DKK 3,491 million (3,274), which equates to organic growth of 8% in local currencies. Growth was driven by tablets, which is ALK's largest single product category, and which proved resilient to the effects of COVID – in part due to its suitability as an alternative option for patients who were unable to continue with their usual treatments. Tablet sales grew by 42% with ITULAZAX® leading the way, while SCIT products were negatively affected by the impact of COVID as they are administered during visits to allergy clinics. The COVID-effect impacted sales in the USA in particular, where conditions were challenging, with significantly fewer patients visiting allergy specialists.

Europe
European revenue increased by 8% to DKK 2,550 million (2,368) despite some continuing constraints caused by COVID. Planned product discontinuations reduced growth by 4 percentage points, as numerous older SCIT and SLIT-drops products continued to be phased out in favour of documented, registered products.

Revenue growth was largely fuelled by sales of SLIT-tablets, which were up 40% at DKK 1,019 million (735). Sales benefited from the confluence of several factors: resilience to the impact of COVID versus alternative treatment options, the ongoing market shift in favour of evidence-based medicines, the benefits of an ALK sales excellence programme, and the ongoing roll-out of ITULAZAX®.

Combined SCIT and SLIT-drops sales were down 9% at DKK 1,320 million (1,454). Of this, 6 percentage points related to product discontinuations, as well as the fact that SCIT treatments rely on more frequent clinic visits, and were disproportionately affected by COVID since patients were either unable or unwilling to visit clinics and, in any case, capacity at many clinics – particularly in southern Europe – was significantly reduced.

Sales of other products were up 18% at DKK 211 million (179), driven by strong demand for the adrenaline auto-injector Jext®, which registered 42% sales growth and market share gains in key markets.

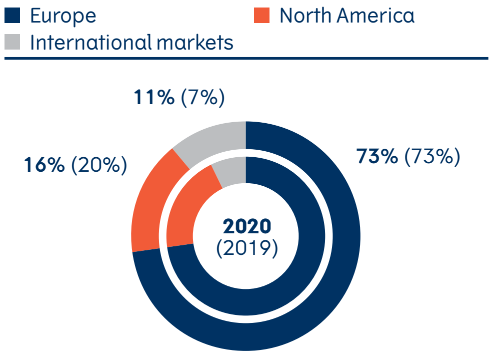
Overall revenue increased in most markets, especially Germany, which delivered double-digit growth following a significant increase in tablet sales with a promising performance by ITULAZAX®. Furthermore, ALK became the first company in Germany to offer a complete product range for major allergens comprised solely of registered AIT treatments, reflecting

Continues

Revenue by geography

DKKm	2020	Growth (l.c.)	2019
Europe	2,550	8%	2,368
North America	573	-10%	669
Int'l markets	368	58%	237
Overall revenue	**3,491**	**8%**	**3,274**

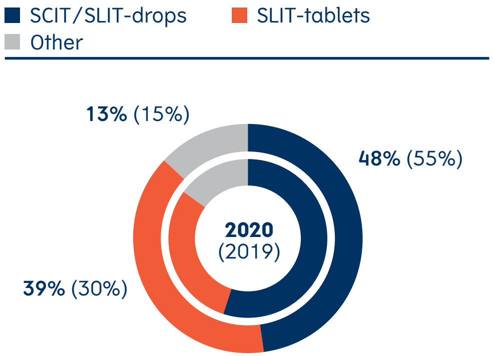
Revenue by geography



Revenue by product line

DKKm	2020	Growth (l.c.)	2019
SCIT/SLIT-drops	1,673	-7%	1,818
SLIT-tablets	1,370	42%	973
Other products	448	-4%	483
Overall revenue	**3,491**	**8%**	**3,274**

Revenue by product line



an ongoing market shift in favour of registered, evidence-based products, which was further facilitated by a change to the fee model, mitigating unintended disincentives for doctors to prescribe tablets. In France, overall sales were unchanged as growth in tablet sales was offset by lower SLIT-drops sales. However, ALK remains the market leader in terms of the number of patients receiving treatment. Meanwhile, sales in Spain were also impacted by COVID, while the challenging conditions in Italy were further exacerbated.

Overall, market conditions were largely stable, and there were no notable changes affecting the pricing and reimbursement of AIT products, although the risk of pressure in southern Europe remains.

North America
The fallout from the COVID pandemic made market conditions in North America challenging, especially in the USA, and suppressed sales across the portfolio. A major influence on this was patients' ability and willingness to visit allergy clinics, while a further challenge came from the fact that many clinics were running at a reduced capacity. At one point, during Q2, ALK estimated that up to half of US allergy clinics were fully or partially closed, while those that were open were seeing significantly fewer patients.

In consequence, revenue in North America was down 10% organically in local currencies to DKK 573 million (669). This was despite some improvements in H2, particularly in sales of tablets and bulk SCIT products.

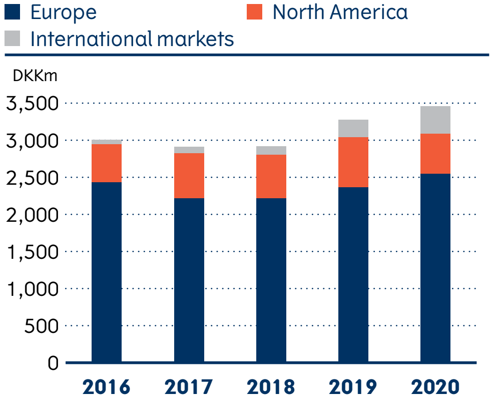
Full-year sales of tablets in the region grew by 4% to DKK 85 million (85), driven by Canada as US sales stagnated. In volume terms, tablet uptake in North America increased by 28%, but market-building tactics such as rebates and coupons – essential to establishing any new medicine in this region – reduced effective sales prices. Sales of bulk allergen extracts were down 5% at DKK 275 million (306), while sales of diagnostics and other products decreased 19% to DKK 213 million (278) – mainly due to COVID reducing sales of non-allergy related life science products and the use of PRE-PEN® in hospitals.

International markets
Revenue from International markets was up 58% in local currencies at DKK 368 million (237) as ALK's largest markets in the region, Japan and China, resisted and rebounded from COVID, respectively.

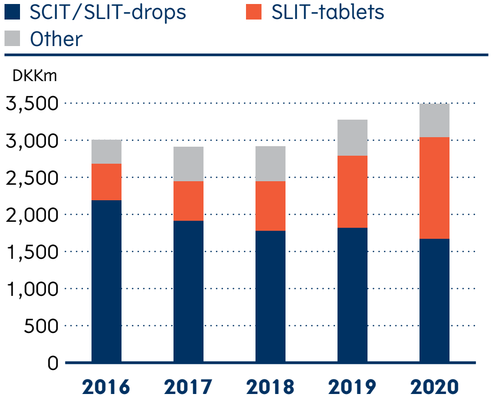
Revenue in Japan from product supply and sales royalties grew by 80%. ALK's partner Torii continued to successfully build the market for tablets and MITICURE™ sales were up strongly, while sales of CEDARCURE™ were boosted by the conversion of patients from an outgoing legacy product. Revenue in Japan also benefited from the effects of stock-building by Torii, which provided an extraordinary boost to revenue in Q3 and Q4. ALK sales in China grew by 28%, while growth was also recorded in south-east Asia, Turkey, and Israel.

"ALK became the first company in Germany to offer a complete product range for major allergens comprised solely of registered AIT treatments.

5-year total revenue by geography



5-year total revenue by product line



COVID-19: The defining challenge of 2020

The emergence of COVID, its global spread, and subsequent measures to contain it, all had a significant effect on ALK's business in 2020.

Once the seriousness of the pandemic became clear, in Q1, ALK took immediate action to protect staff, and invoked contingency measures to safeguard business continuity and maintain the supply of ALK products for doctors and their patients. As a result of these measures, ALK's inventories of both supplies and finished products remained robust throughout the year.

The impact on sales was greatest for those products that are typically delivered in an allergy clinical or hospital, such as SCIT products, and in specific markets, such as the USA, where it is estimated that the total value of missed sales exceeded DKK 100 million. Outside of the USA, sales of ALK's SLIT-tablets – which can be self-administered by patients at home – proved extremely resilient. Meanwhile ALK made good use of its digital engagement platforms to support healthcare professionals and patients.

Regions where COVID first took hold, such as China and later, Europe, were the first to stage a market recovery, meaning that patients once again became able to visit healthcare professionals without significant limitations, although, in some countries – notably in southern Europe – capacity was still constrained to some extent. ALK's working assumption is that the first half of 2021, and especially Q1, will continue to be somewhat impacted by COVID, especially in relation to allergy patients' ability and willingness to visit healthcare professionals. This is likely to continue to impact treatments that rely on more frequent clinic visits, while tablets are expected to remain resilient.

COVID also had a significant effect on ALK's clinical development activities, particularly on patient recruitment which, at one point, was placed on hold for all trials.

Continues

Focus on

ALK's COVID task force

In February 2020, just a few weeks after reports began appearing of a new coronavirus emerging in China, ALK convened the first meeting of its COVID task force. Its purpose was to anticipate and mitigate the potential consequences of the virus, should it spread further, and to promote global guidelines for the ALK organisation on managing the situation, including initiatives to maintain a sense of togetherness among employees working from home during lockdowns.

The task force's approach was both proactive in that it developed a wide-ranging contingency plan to safeguard both employees and the ongoing supply of medicines, and conservative in that it applied a 'safety first' principle to all the scenarios it considered. One example of this was the construction of a separate, temporary staff restaurant in Denmark solely for the use of manufacturing staff.

The task force served a dual role in overseeing business continuity in Denmark, and offering guidance to those coordinating contingency measures in other countries, which were tailored to ensure compliance with the differing local situations and regulations.

Two critical successes of ALK's actions were that, despite many of its employees being quarantined at various times, throughout 2020, there was no uncontrolled chain of infections within the company and that the supply of ALK's products remained uninterrupted throughout the year. The task force will continue to meet in 2021 until the threat of COVID subsides.

Financial review of 2020

(Comparative figures for 2019 are shown in brackets. Revenue growth rates are organic and stated in local currencies, unless otherwise indicated)

2020 revenue increased organically by 8% in local currencies to DKK 3,491 million (3,274) and was negatively impacted by COVID, predominantly in the USA. Exchange rate fluctuations impacted reported revenue growth negatively by 1 percentage point. The divestment of the US veterinary business in late 2019 reduced reported growth by approximately 0.5 of a percentage point.

Cost of sales increased 7% organically in local currencies to DKK 1,463 million (1,382). The gross profit of DKK 2,028 million (1,892) yielded a gross margin of 58% (58%), and reflected changes in the product mix, increased sales – especially from tablets – but also lower sales of legacy products in Europe and significant costs associated with compliance efforts to secure robustness in product supply, as well as the 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 decreased 1% in local currencies to DKK 1,877 million (1,922). R&D expenses increased by 11% in local currencies to DKK 515 million (466) in support of clinical trials, although this was significantly lower than expected following delays to clinical activities due to the COVID pandemic. Particularly affected was the recruitment of patients for clinical trials. Sales and marketing expenses decreased organically by 5% in local currencies to DKK 1,125 million (1,210), reflecting savings as a consequence of COVID restricting sales and marketing activities in many markets, and operational leverage of ALK's commercial activities. Administrative expenses decreased 4% in local currencies to DKK 237 million (246).

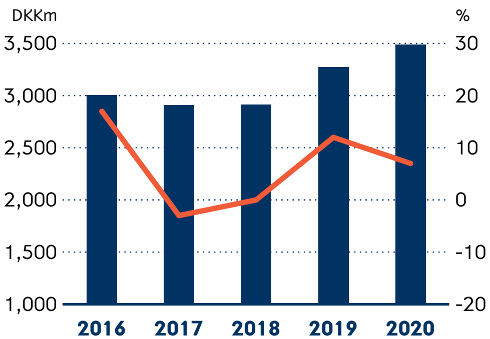
2020 guidance history

DKK	2020E 5 February outlook	2020E 12 August outlook	2020E 5 November outlook	**2020 Actual**
Revenue	+8-12% organic	Lower end of +8-12% organic	**~ +8% organic**	**+8% organic**
EBITDA	200-300m	300-350m	**350-400m**	**395m**
Free cash flow	~(300)m	~(200)m	**~0m**	**+56m**

Continues

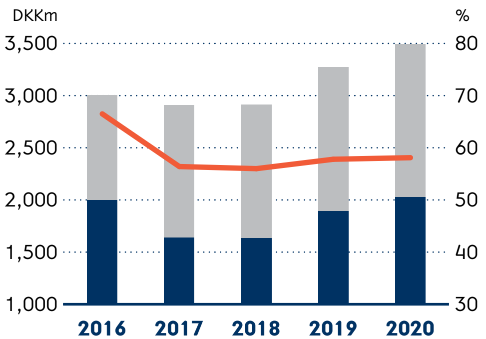
Revenue

- Revenue
- Total revenue growth



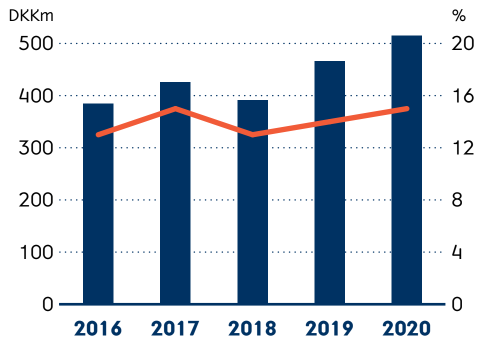
Gross profit

- Gross profit
- Cost of sales
- Gross margin



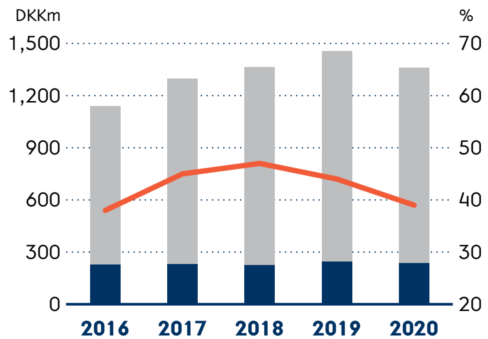
Research and development

- Research and development expenses
- Percentage of revenue



Sales, marketing and administration

- Administrative expenses
- Sales and marketing expenses
- Percentage of revenue



EBITDA (operating profit before depreciation and amortisation) increased 64% to DKK 395 million (241) and was better than expected, reflecting savings and delayed R&D expenditure due to COVID. Exchange rates did have a small negative impact on operating profit.

Net financials were a loss of DKK 49 million (loss of 17) mainly relating to net interest expenses and currency fluctuations on intercompany loans. **Tax on the profit** totalled DKK 76 million (19) and **net profit** was DKK 25 million (a loss of 50).

Cash flow from operating activities was positive at DKK 301 million (132) mainly as a consequence of the increased EBITDA. Furthermore, cash flow was negatively impacted by changes in working capital as a consequence of the company's growth momentum.

Cash flow from investment activities was DKK minus 245 million (minus 157) mainly relating to upgrades to legacy production and the build-up of capacity for SLIT-tablet production.

Free cash flow was positive at DKK 56 million (minus 25), which was better than expected due to higher earnings.

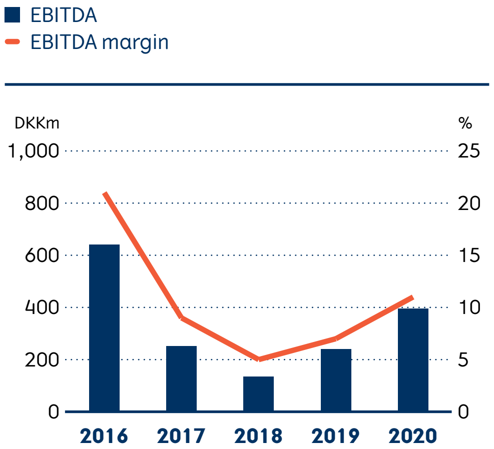
Cash flow from financing activities was DKK minus 62 million (minus 57), mainly relating to minor repayments of borrowings and the settlement of incentive programmes.

At the end of 2020, **cash and marketable securities** totalled DKK 298 million (316). In addition, ALK has an unused credit facility of DKK 600 million which runs until 2022.

Equity totalled DKK 3,153 million (3,176) at the end of the year, and the equity ratio was 57% (58%).

At the end of 2020, ALK held 212,873 of its **own shares** or 1.9% (2.2%) of the share capital.

EBITDA



Q4 review

(Comparative figures for 2019 are shown in brackets. Revenue growth rates are organic and stated in local currencies, unless otherwise indicated)

Strong Q4 delivers results in line with latest outlook
ALK finished 2020 with a strong final quarter, registering 16% in organic revenue growth, fuelled by very strong tablet sales growth of 55% during the peak season for AIT treatment initiations. COVID continued to impact patients' ability and willingness to visit clinics, especially in the USA and in selected European markets, but the overall impact of the pandemic was reduced.

Q4 highlights

- Total revenue was up 16% organically in local currencies at DKK 991 million (883). Portfolio rationalisations reduced growth by 3 percentage points. In addition, reported growth was negatively impacted by 4 percentage points due to exchange rate fluctuations
- Tablet sales grew by 55% to DKK 409 million (269) with high, double-digit growth in all sales regions
- Combined SCIT and SLIT-drops sales were down 2% at DKK 477 million (501)
- Sales of other products declined 1% to DKK 105 million (113)

In **Europe**, revenue was up 17%, driven by strong uptake of the tablets, for which sales grew 54%. Combined sales of SCIT and SLIT-drops were down 2%, reflecting product discontinuations, patients switching to tablets and COVID-related constraints on clinic visits. Sales of other products increased 18% on high growth in sales of the Jext® adrenaline auto-injector, which were up 45%. Some general inventory stocking at wholesalers ahead of 2021 was observed in selected markets.

In **North America**, Q4 revenue was down 2%, which nevertheless reflected a rise in demand after the very challenging market conditions caused by COVID in Q2 and Q3. Tablet sales in the region were up 37%, while sales of bulk allergen extracts (SCIT) decreased 1%. Sales of other products and services declined 13% on the impact of COVID. In December, RAGWITEK® was approved for the treatment of moderate-to-

Continues

Income statement

Amounts in DKKm	Q4 2020	Q4 2019
Revenue	991	883
Cost of sales	412	368
Gross profit	**579**	**515**
Gross margin	***58%***	***58%***
Research and development expenses	178	149
Sales and marketing expenses	338	325
Administrative expenses	72	65
Other operating items, net	0	14
Operating profit/(loss) (EBIT)	**(9)**	**(10)**
Net financial items	(5)	(4)
Profit/(loss) before tax (EBT)	**(14)**	**(14)**
Tax on profit	17	15
Net profit/(loss)	**(31)**	**(29)**
Operating profit before depreciation and amortisation (EBITDA)	**64**	**48**

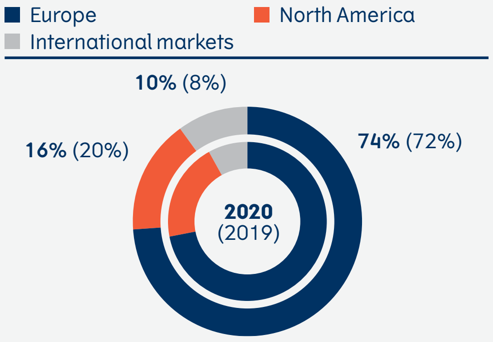
Revenue by geography

DKKm	Q4 2020	Growth (l.c.)	Q4 2019
Europe	734	17%	638
North America	155	-2%	173
Int'l markets	102	46%	72
Revenue	**991**	**16%**	**883**

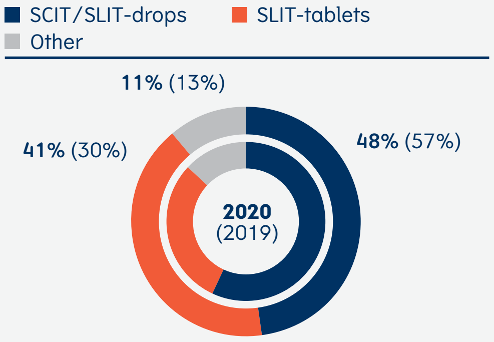
Revenue by product line

DKKm	Q4 2020	Growth (l.c.)	Q4 2019
SCIT/SLIT-drops	477	-2%	501
SLIT-tablets	409	55%	269
Other	105	-1%	113
Revenue	**991**	**16%**	**883**

Revenue by geography



Revenue by product line



severe ragweed pollen allergy in children age five and older in Canada.

Revenue from **International markets** grew by 46%, fuelled by the strong uptake of tablets in Japan including planned, advance stocking by Torii ahead of 2021, which provided an extraordinary boost to revenue during the quarter.

During Q4, ALK saw a clear impact on its clinical development activities from COVID. The anticipated new timelines for ALK's key clinical trials are detailed below.

Gross margin was 58% (58%), reflecting changes in the product mix, higher tablet sales, and increased lower-gross margin shipments to Japan, but also significant costs for compliance efforts to solidify robustness in product supply, as well as the implementation of the product and site strategy.

Capacity costs increased 11% in local currencies. Sales and marketing expenses increased 7% in local currencies as ALK increasingly focused on its digital platforms while COVID restricted other promotional activities. R&D expenses increased by 21% in local currencies, however, COVID continued to hinder the recruitment of patients for clinical trials.

EBITDA of DKK 64 million (48) was in line with the most recent expectations, reflecting higher sales, as well as savings and delayed R&D expenditure due to COVID.

Trial	Original completion		Expected completion	Comments
HDM SLIT-tablet Registration trial China	2021	→	**2022**	Expected to restart in mid-2021
HDM SLIT-tablet Paediatric allergic rhinitis Europe/North America	2022	→	**2023**	Patient recruitment extended with additional cohort
HDM SLIT-tablet Paediatric allergic asthma Europe/North America	2022	→	**2022**	Ongoing
Tree SLIT-tablet Paediatric allergic rhinitis Europe/Canada	2023	→	**2023**	To be initiated in 2021

After collecting, drying and sieving catkins to release pollen, the lipid layer is removed to prepare the pollen for protein extraction

Strategic transformation

Strategy update

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

Over the past three years, the company has pursued a series of initiatives under four areas of focus: succeed in North America, complete and commercialise the tablet portfolio for all relevant ages, patient engagement and adjacent business opportunities, and optimise and reallocate resources towards growth initiatives.

The USA still holds considerable potential for ALK's tablets despite long-standing financial disincentives for allergists to prescribe these products. ALK's approach will be, with creativity and persistence, to continue establishing new and broader sales channels with the aim of gradually unlocking the potential of this market. Meanwhile, progress on the other three priorities has been significant. The SLIT-tablets now cover five of the most common global respiratory allergies and have become ALK's growth engine, delivering an average growth of 37% over the past three years (CAGR). The company's improved consumer engagement capabilities not only offer help and resources to millions of people with allergy, they also help mobilise consumers towards AIT treatment. Finally, through investments in quality upgrades, ongoing portfolio reduction and its site specialisation strategy, ALK has taken significant steps in improving manufacturing quality, efficiency and robustness.

On the next page is a summary of what has been achieved in each of these focus areas.

Continues

"Over the past three years, ALK has pursued a series of initiatives under four areas of focus.

Right: Tablets will remain ALK's primary growth driver for the foreseeable future and will be the focus of efforts to extend coverage to new patient groups – including children

Key achievements 2018-20

Succeed in North America

- Infrastructure established & ACARIZAX® / ODACTRA® launched
- Commercial strategy tested & rolled out, execution challenged by market barriers
- Initial tablet prescriber base established
- Growth in value of bulk business, pre-COVID

Complete and commercialise tablet portfolio

- Tablets now launched for all five major respiratory allergies
- Tablets as primary growth drivers with 37% growth (3-year CAGR)
- Ongoing clinical programme for paediatrics / adolescents, asthma, new market entries: on track pre-COVID

Patient engagement and adjacencies

- Digital platforms rolled out in six markets with hundreds of thousands of users
- US adrenaline strategy in place
- Small-scale consumer division launched
- Drug discovery partnerships established

Optimise and reallocate

- Ongoing quality and robustness upgrades for legacy products
- New site strategy implemented
- Portfolio rationalisation: more than 300 products phased out
- Life-cycle management of core legacy portfolio: ~3,500 regulatory updates
- Cultural transformation in progress

Continues

Financial results exceed expectations

Accumulated three-year revenue

>DKK 700 million better than expected*

(Actual: DKK 9.7 billion)

Accumulated three-year EBITDA

~DKK 800 million better than expected

(Actual: DKK 772 million)

Accumulated three-year free cash flow

>DKK 700 million better than expected

(Actual: DKK minus 263 million)

* Based on the original 2018 outlook of DKK 2.7 billion and 10% growth from 2019 onwards

Delivering sustainable growth and profitability

With the transformation complete, ALK is entering the next phase of its development. The challenge now is to use what has been achieved as the launchpad for future success as ALK seeks to become the allergy company by extending its leadership in respiratory allergy, expanding its position in anaphylaxis, establishing a presence in food allergy, and pursuing new innovations through research.

The emphasis for the period 2021-23 is on achieving sustainable growth and increasing profitability following the significant investments made to successfully deliver the transformation.

ALK's overall strategy remains unchanged, and is still anchored in the same four areas of focus, albeit with minor adjustments to some of the names to reflect the necessary steps to achieving profitability: succeed in North America, complete and commercialise the tablet portfolio, consumer engagement and new horizons, and finally, optimise for excellence.

In addition, some longer-term initiatives have been introduced which, as they develop, are designed to provide the additional impetus to accelerate ALK towards its longer-term aspiration of becoming a global allergy leader.

Focus areas during 2021-23

Sustainable growth and profitability

Sales growth of 10% or more
Improving EBIT

Succeed in North America

- Establish broader, scalable sales model for tablets
- Leverage digital platforms to mobilise patients
- Drive sales recovery across wider non-tablet product portfolio

Complete and commercialise tablet portfolio

- Complete paediatric development and commercialise across ALK's markets
- Sustain commercial momentum of tablets (expand breadth and depth of prescriber base)
- Complete clinical development and prepare for launch in China, leverage clinical data to enter new markets

Consumer engagement and new horizons

- From consumers to AIT patients – develop and leverage digital ecosystem for consumers, patients and HCPs
- Drive growth of Jext® in EU and prepare next generation global adrenaline solution
- Develop innovative new treatments for high-impact allergic conditions, including food allergies

Optimise for excellence

- Maintain quality excellence and IT robustness
- Complete portfolio rationalisation and site specialisation
- Maintain and upgrade core legacy products

Lead the way – people and planet

"ALK seeks to become the allergy company by extending its leadership in respiratory allergy, expanding its position in anaphylaxis, establishing a presence in food allergy, and pursuing new innovations through research.

Continues

Succeed in North America

Succeeding in North America – and particularly the USA, which is the world's largest market for pharmaceuticals – continues to be an important priority for ALK, despite the setbacks caused by the COVID pandemic.

ALK will continue to invest in its strategy for North America, developing and adapting its platform there to mobilise allergy patients and deliver accelerated tablet sales, and securing paediatric and adolescent indications for ACARIZAX®/ODACTRA® and RAGWITEK®, as well as introducing other prescription allergy solutions.

Central to this approach will be the further evolution of digital engagement tools, first mobilising patients to seek treatment for their allergies, and second, providing a framework that connects them with ever more healthcare professionals who are willing and able to prescribe ALK products.

Finally, ALK will continue to maintain and promote its bulk allergens and other products that underpin its relationship with, and commitment to, existing customers. These products represent an important commitment to offering a full range of allergy products and treatment options and will continue to play a role in delivering value growth in the region for ALK.

Short-term objectives

Increase total sales in North America

2021 target

≥+10% p.a.

(2020 status: DKK 573m)

Mobilise consumers in the USA via digital engagement

2021 target

20,000

(2020 status: ~5,800)

Secure paediatric and adolescent indications for ACARIZAX®/ODACTRA® and RAGWITEK®

2021 target

RAGWITEK® paediatric approval in the USA, ACARIZAX® adolescents approval in Canada

(2020 status: RAGWITEK® paediatric approval in Canada)

Focus on

How COVID impacted the US AIT market

COVID made its first big impact in the USA in March 2020, when a nationwide lockdown was ordered after infection rates spiked. The timing coincided with the start of the spring allergy season which is the peak season for treatment initiations in the USA, when the onset of seasonal allergy symptoms usually prompts a rush to allergy clinics.

But by now, many clinics were closed, and where they remained open, patients were either unable or too fearful to visit them such that, during Q2, in-person visits to doctors' offices fell by around 70% versus the same period in 2019.

This severely limited the number of new treatment initiations across ALK's portfolio since, even for the tablets, US labelling requires that first doses should be administered under medical supervision. As a result, ODACTRA® new patient initiations fell by more than 50% between March and May when compared with pre-COVID levels. ALK responded with a range of measures – supporting allergists by phone and online, ramping up direct-to-consumer communications, offering direct mail-outs of maintenance treatment to those already on tablets, and introducing digital tools to support customers, patients and its own sales organisation – so that, by Q4, ODACTRA® new patient initiations were exceeding those of Q1.

By the end of the year, capacity in clinics had returned to around 80% of normal and ALK reverted to a mix of traditional and virtual sales methods. Despite the constrained capacity at clinics during 2020, ALK still saw an overall year-on-year increase in tablet sales volumes and saw further encouraging signs in December, when ODACTRA® prescription volumes substantially outpaced those from the same period in 2019.

Complete and commercialise the tablet portfolio for all relevant ages

The tablet portfolio now covers all five of the allergies that were targeted under this programme – house dust mite, grass, tree, ragweed and Japanese cedar. These tablets remain ALK's core assets and further development will focus on consolidating and expanding the leadership they give ALK in respiratory AIT.

To achieve this, ALK will extend the reach of these products to cover new geographies and new patient groups – such as children and adolescents, and strengthening the evidence for their use in allergic asthma.

What is critical, is that each of these steps goes hand in hand with the ability to successfully commercialise each expanded opportunity, and to fully realise the market potential of these assets.

Short-term objectives

Increase global tablet sales in strong double digits annually

2021 target

>20%

(2020 status: DKK 1,370m)

Clinical development for paediatric use and geographic expansion

2021 target

Progress as planned

(2020 status: COVID-affected)

Focus on

The transition towards registered products in Germany

The AIT market in Germany has undergone a major transformation over the past decade, as a combination of key opinion leader-recommendations, tighter regulation, and revised rules on reimbursement and the doctors' fee structure have taken effect. Together, these changes have resulted in a market that is now much more favourable for documented, registered allergy treatments, and have resulted in a reduction from more than 6,000 prescription AIT products available in the mid-2000s, to fewer than 200 today.

In addition to key allergy opinion leaders, this shift has had vocal support from Germany's medical insurance funds, who are keen to see evidence of tangible medical benefits from the treatments they offer reimbursement for.

From the pharmaceutical industry's side, ALK has been a leader of the move towards registered treatments, from the thorough clinical documentation that accompanied its development of the SLIT-tablet portfolio, to the clinical development work it has undertaken in support of key legacy products. To the extent that, in July 2020, ALK became the first company in Germany to offer a complete product range for major allergens comprised solely of registered AIT treatments, which account for more than 90% of all AIT treatments currently administered.

SLIT-tablet portfolio covers five of the most common respiratory allergies

ALK's SLIT-tablet pipeline

Product	Indication	Phase I	Phase II	Phase III	Filing	Marketed
GRAZAX® Europe	Adults and children – Allergic rhinitis (grass)					2007
GRASTEK® North America	Adults and children – Allergic rhinitis (grass)					2014
GRAZAX® International markets*	Adults and children – Allergic rhinitis (grass)					2017
RAGWITEK® North America	Adults – Allergic rhinitis (ragweed)					2014
RAGWIZAX® Europe & Int'l markets	Adults – Allergic rhinitis (ragweed)					2020
RAGWIZAX® / RAGWITEK® Europe & NA	Children – Allergic rhinitis (ragweed)					***
ACARIZAX® Europe	Adults – Allergic rhinitis and allergic asthma (HDM) Adolescents – Allergic rhinitis (HDM)					2016/17
ACARIZAX®/ODACTRA® North America	Adults – Allergic rhinitis (HDM)					2017/18
MITICURE™ Japan**	Adults and children – Allergic rhinitis (HDM)					2015/18
ACARIZAX® International markets*	Adults - Allergic rhinitis and allergic asthma (HDM)					****
ACARIZAX® China	Adults – Allergic rhinitis (HDM)					
ACARIZAX®/ODACTRA® Europe & NA	Children – Allergic asthma (HDM)					
ACARIZAX®/ODACTRA® Europe & NA	Children – Allergic rhinitis (HDM)					
ODACTRA® North America	Adolescents – Allergic rhinitis (HDM)					
CEDARCURE™ Japan**	Adults and children – Allergic rhinitis (Japanese cedar)					2018
ITULAZAX® Europe	Adults – Allergic rhinitis (tree: birch family)					2019
ITULATEK® Canada	Adults – Allergic rhinitis (tree: birch family)					2020

~23,000

people participated in clinical development of the tablets which saw 21 Phase III trials

* Licensed to Abbott for south-east Asia and Seqirus for Australia/New Zealand

** Licensed to Torii for Japan

*** Approved in Europe

**** Already marketed in selected markets

Consumer engagement and new horizons

Over recent years, ALK has developed a suite of digital tools and platforms as part of its klarify-branded ecosystem for consumers, so that that those most suitable for AIT can gain smoother access to a definitive diagnosis and appropriate treatment.

Over the next few years, ALK will leverage these assets to further engage with and mobilise people with allergy. Through this engagement, ALK aims to not only promote a wider understanding of allergy, its causes and potential treatments, but also to more easily connect those suitable for treatment with AIT with a competent healthcare professional who can help them.

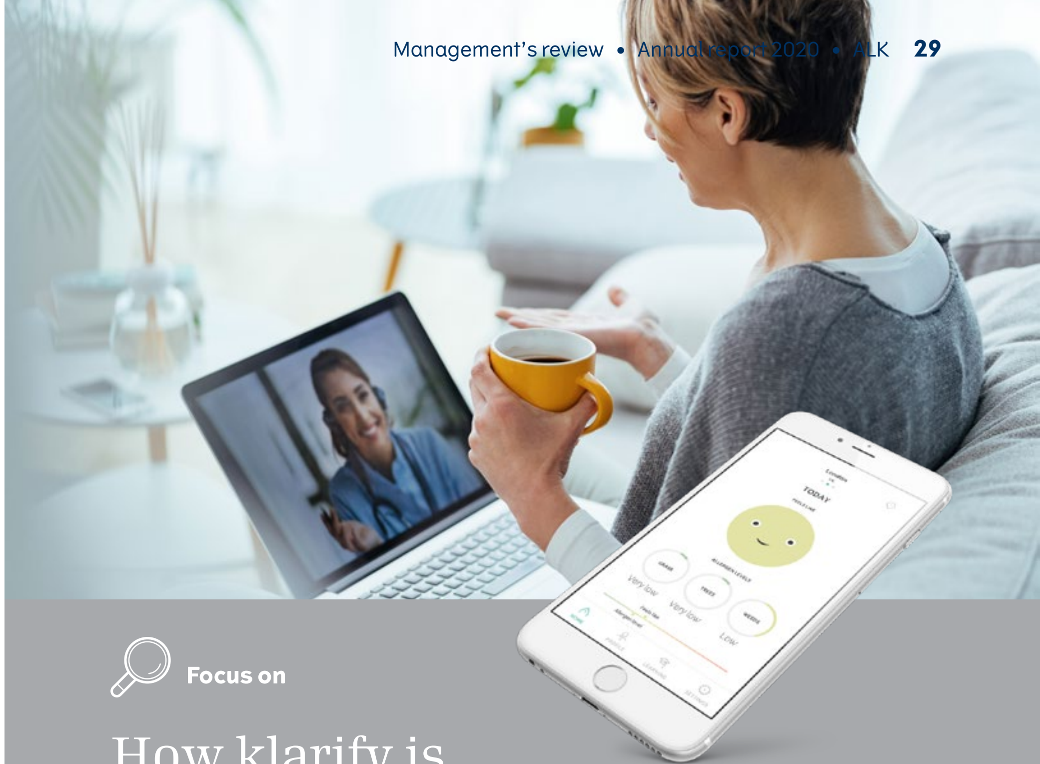
In essence, ALK aims to become better at clarifying the journey and hand-holding eligible treatment candidates along the path from curious consumer, to AIT patient.

The previous priority of seeking adjacent business opportunities has been broadened to encompass not just business development and partnership opportunities, but also the work of ALK – through its own research and development – to formulate and refine innovations outside the current respiratory AIT niche in order to establish a broader and more robust presence in the wider allergy segment over the long term. One example of this is the goal of entering the US market with an adrenaline auto-injector that is both affordable and competitive, with a submission to the US FDA no later than 2024. Another is a platform programme to enter the food allergy treatment market, which is an area of significant unmet medical need.

Finally, ALK will continue to identify and explore the potential addition of new products and services to its portfolio through an active programme of business development and thorough due diligence.

Short-term objectives

Mobilise consumers globally via digital engagement	Progress R&D innovation projects	
2021 target	2021 targets	
250,000	**Food: Prepare for clinical development**	**Anaphylaxis: Decide on US development pathway**
(2020 status: ~200,000)	(2020 status: Research)	(2020 status: Development)



Focus on

How klarify is connecting with consumers

In Q4, in the USA, ALK added a 'speak to a doctor' option to its klarify and branded digital engagement platforms, and saw more than 40,000 US consumers take its digital 'allergy-control' test. This allows consumers to test whether their allergy is under control and offers them the option of an online consultation with a qualified allergist who can either issue an appropriate prescription, or refer them for a diagnosis to identify their specific allergy and, potentially, treatment with ALK's SLIT-tablets. By engaging US consumers in this way, and identifying those who need more help and connecting them with allergists, ALK is connecting the dots for people suffering in silence with their allergy by offering them a convenient, and digitally-driven consumer journey.

This type of service is an important way of offering personalised, professional advice on allergy, while helping people with allergy to navigate the often confusing path to a clear diagnosis and treatment. In addition, it ensures referrals are directed to allergists who are willing and able to prescribe the full range of allergy treatment options – from symptomatics, to allergy shots (SCIT) and, importantly for ALK, SLIT-tablets.

While the regulations covering such offerings differ from country to country, ALK is developing a standardised methodology that can be adapted to local requirements. For example, in Germany, ALK is offering users of klarify the option of speaking to a facilitator who can guide them through the process of obtaining a diagnosis and contacting a healthcare professional who is able to prescribe an appropriate treatment for their allergy.

Optimise for excellence

The fourth focus area will see ALK continue its already established programme of portfolio rationalisation, manufacturing site specialisation, and other initiatives designed to ensure regulatory compliance, robustness of supply, and to improve overall quality and efficiency. This includes an initiative to upgrade and safeguard ALK's core legacy products in Europe, which will continue.

In addition, ALK will continue its work to drive organisational excellence and to further embed the cultural progress delivered by the transformation effort. Efforts to improve the operational leverage of ALK's commercial activities will also continue.

Short-term objectives

Contribute to improved overall gross margin by continuing to prune the portfolio and optimising manufacturing operations

2021 target

+1-2 p.p.

(2020 status: 58%)

Upgrade product documentation and facilities to sustain long-term portfolio of legacy products

2021 target

Meet project milestones

(2020 status: On track)

No quality-related major interruptions to supply

2021 target

None

(2020 status: None)

Focus on

Driving sales excellence across ALK

The completion of the tablet portfolio and the rationalisation of ALK's legacy portfolio over recent years has significantly standardised the range of products sold by the company. By 2018, this increased standardisation allowed ALK to begin an initiative – known internally as RISE – to significantly strengthen its sales and marketing execution.

A 'better practice' analysis was carried out of the company's approach to preparing, conducting, and following up on customer calls, as well as the materials used to support them. The results of this, together with input from external benchmarking, were used to create and launch a global sales and coaching model for best practice customer interactions. In addition, marketing tools began to be developed with this framework in mind, maximising the ease and impact of local adaption. Behind the scenes, a digital ecosystem of support tools is being implemented, along with a single, global customer relationship management (CRM) system.

All of this has resulted in improved ways of working within the Sales & Marketing organisation, and has established a more uniform approach to selling across ALK, as well as better leveraging of tools and resources. Meanwhile, ALK's staff have welcomed the training they receive as a valuable investment in their future. The RISE model is now in place across Europe and will be expanded to North America, Russia and China in 2021.

Lead the way – people and planet

Becoming the allergy company will require ALK to lead the way in many areas, not just scientifically and commercially, but also in the way it develops its people and organisation and in its approach to sustainability.

ALK's efforts in each of the four focus areas will therefore be underpinned by a 'platform' which addresses organisational agility and sustainability.

Organisational agility initiatives will ensure that ALK's future growth is enabled by highly engaged and motivated employees who benefit from a strong framework of support for leadership and talent development. Central to this will be ALK's cultural beliefs which encourage open dialogue, honest feedback, and strong cross-organisational cooperation.

In addition, a renewed commitment to sustainability will see ALK establish a business model that will improve access to allergy care and deliver on ALK's wider commitments to the environment, sustainability and governance.

Continues

Short-term objectives

Global talent development programme: ASPIRE	New dialogue tool to support organisational development	Sustainability progress*
2021 target	2021 target	2021 target
Implement	**Implement**	**Meet ALK's goals**
(2020 status: N/A)	(2020 status: N/A)	(2020 status: See *)

* For a detailed breakdown of ALK's sustainability performance and goals, please refer to the ESG (Environmental, Social, and Governance) key figures overview on page 36 of this report and the sustainablilty report available at www.alk.net/sustainability

From EBITDA to EBIT for medium-term financial ambitions

ALK will use EBIT – Earnings Before Interest and Taxes – as the prime indicator of the company's long-term profitability aspirations. Hence, ALK's long-term financial indications for operating profit are stated as EBIT rather than the previously applied EBITDA. The change reflects an increasing focus on the underlying earnings generation of the company and the fact that the next phase of the strategy is one of stable capital expenditure.

Medium-term financial ambitions

ALK's updated range of financial indicators for the next phase of its strategic development are:

- **An ALK capable of delivering sustainable revenue growth of 10% or more annually**
- **An ALK capable of returning its business to profitability, and ramping up its EBIT-margin to approximately 25% in 2025**

These indications include costs for the development of food allergy immunotherapy solutions and new approaches to the treatment of severe allergic conditions.

They also assume:
- A gradually improving gross margin driven by higher sales and greater efficiencies
- Continued extraordinarily high R&D spend during 2021-22, after which, the spend relative to revenue will decrease in parallel with the completion of large-scale development work on the respiratory tablet portfolio
- Further leveraging of ALK's existing sales and marketing platforms meaning that sales and marketing costs relative to revenue will further decrease
- Annual CAPEX of around DKK 300 million associated with strategic investments, maintenance, optimisation efforts and IT
- No revenue from acquisitions, new partnerships or the in-licensing of adjacent products and services has been included, nor have any sizeable payments related to M&As or in-licensing activities

Corporate matters

Sustainability

In 2020, ALK instigated a step change in its commitment to sustainability with a continuing focus on ensuring good health and well-being for all, the details of which were formalised in a strategy titled 'Access to Allergy Care for All'.

ALK's sustainability activities aim to mitigate risks and adverse impacts related to its business activities while also contributing to solving societal and environmental challenges where possible.

To support its sustainability strategy further, ALK conducted a materiality assessment in 2020 to identify those aspects with the highest impact on its business and stakeholders. The assessment was based on a business analysis as well as input from relevant internal and external stakeholders, and it now forms the basis for target-setting and the prioritisation of resources.

Continues

Materiality assessment chart

Access to medicines

The materiality assessment identified access to medicines, and helping as many people with allergy as possible, as key priorities for ALK's sustainability activities. Over the years, ALK's solutions have helped many people around the world. However, many more still lack access to modern medical care for their allergies and related asthma.

ALK aims to improve this by partnering with healthcare systems and professionals around the world, and through the wider democratisation and dissemination of its allergy solutions. This ambition covers the full range of ALK's research, its diagnosis, treatment, disease modification and prevention solutions, as well as its training, education and awareness-raising expertise. The ultimate goal is an introduction of allergy solutions earlier in the patient journey in order to achieve better treatment outcomes for ever more people, wherever they may be.

At the same time, ALK remains committed to the UN Global Compact Principles and contributes to addressing 11 of the UN Sustainable Development Goals.

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 sustainability, environment, health and safety (EHS), tax, diversity, investor relations, remuneration, as well as anti-corruption and bribery policies.

These policies guide ALK's overall approach to integrating sustainability considerations into its overall business operations and, as such, contribute to ongoing improvements in the areas of environment and climate, labour rights, human rights and responsible business practices.

In addition, ALK's Code of Conduct outlines the company's expectations when it comes to professionalism, honesty and integrity. Every ALK manager is tasked with ensuring that each employee is familiar with the code and its importance. Furthermore, all employees are required to read and sign off on their commitment to it every year, and to complete an online training programme covering various aspects of the code.

ALK's statutory annual report on sustainability and the gender diversity of management (as required by §99a, §99b and §107d of the Danish Financial Statements Act) is available at www.alk.net/sustainability. This report also highlights important actions taken in 2020 to support the UN Sustainable Development Goals.

Performance highlights 2020

38%

of all consumed energy came from renewable energy sources

CO_2 emissions were reduced by

32%

compared to a 2017-baseline

Women made up

46%

of all managers

94%

of employees were trained in business ethics compliance

ESG key figures overview

	Unit	**2020**	2019	2018	2017	2016
Environmental data						
CO_2e scope 1	Tonnes	3,232	3,134	2,989	4,419	3,729
CO_2e scope 2	Tonnes	3,380	6,443	6,239	5,238	2,436
Energy consumption	GJ	163,580	169,398*	168,035	169,275	144,826
Renewable energy share	%	38	20	13	13	15
Water consumption	m^3	110,530	122,461	117,252	120,960	102,418
Social data						
Workforce	Headcount	2,486	2,406	2,369	2,284	2,168
Gender diversity, percentage of women	%	63	62	62	62	63
Gender diversity, percentage of women at all management levels	%	46	47	46	47	48
Gender pay ratio of men to women	Times	1.14	1.13	1.12	1.16	1.23
Employee turnover ratio, voluntary and involuntary	%	10	11	11	12	11
Absence due to sickness	%	3.1	2.7	n/a	n/a	n/a
Governance data						
Gender diversity, women as a percentage of shareholder-elected Board	%	20	17	20	17	17
Board meeting attendance rate	%	98	97	98	96	97
CEO pay ratio	Times	34	29	33	49	n/a**

* A reporting discrepancy was found post-publication of the 2020 annual report. The figure is updated to 169,398 from 164,639 reported last year

** In 2016, ALK did not have a CEO for the full year

Environment
CO_2 Scope 1 + 2 emissions include all material types of fuels and refrigerants, including HFCs, gas oil, diesel, heating etc. Renewable energy is subtracted from reported total CO_2-emissions. Energy consumption in GJ is calculated as MWh*3.6. All environmental data is reported for production sites only (Hørsholm, Madrid, Vandeuil, Varennes, Port Washington, Post Falls and Oklahoma)

Social
Workforce is calculated as the headcount of permanent + temporary employees on 31 December 2020. All data is downloaded from ALK's internal HR system Workday. The gender pay ratio is calculated by comparing the median total compensation of men to women. The CEO is excluded. The turnover ratio is calculated by dividing the number of employees who left the company by the average number of employees in the reporting year. Absence is calculated as number of working days with absence due to sickness, divided by total working days

Governance
The CEO pay ratio is calculated as total compensation divided by median staff total compensation. The board meeting attendance rate is calculated as (number of meetings*number of members)-meetings not attended/(number of meetings*number of members)*100

Governance and ownership

Corporate governance

ALK's statutory corporate governance statement for the financial year 2020, pursuant to section 107b of the Danish Financial Statement Act, is available at https://ir.alk.net/financial-reporting/risk-management.

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 45 of the 47 recommendations. The exceptions in 2020 being that there was an overweight of non-independent directors on the Board (three out of five) and that the majority of members of the Audit Committee and Remuneration Committee were non-independent.

The Board has proposed establishing an adequate balance between independent and non-independent directors in 2021 by nominating two new, independent members to the Board of Directors, thus increasing the number of shareholder-elected members to seven. If the nominations are approved at the annual general meeting on 18 March 2021, the majority of the shareholder-elected members will be independent.

For the Audit and Remuneration Committees, ALK took an approach of selecting 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 2020, Anders Hedegaard was elected as the new Chairman of the Board of Directors and Lene Skole was re-elected as Vice Chairman. Lars Holmqvist, Jakob Riis and Vincent Warnery were all re-elected as members of the Board of Directors.

As announced on 6 November 2020, the Board of Directors will propose the election of Gitte Pugholm Aabo, CEO of GN Hearing A/S and Bertil Lindmark, Chief Medical Officer of Galecto A/S as new, independent members of the Board at the Company's annual general meeting on 18 March 2021.

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 C	X4500 (healthcare), OMXCLCPI (LargeCap) and OMXCPI (all)
ISIN	DK0060027142
Bloomberg code	ALKB.DC
Reuters code	ALKB_CO
ADR ticker symbol	AKABY
LEI code	529900SGCREUZCZ7P020

ALK share price up

53%

since 1 January 2020

Major shareholder

40.3%

The Lundbeck Foundation owns 40.3% of ALK's shares

ALK's statutory corporate governance statement for the financial year 2020, 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

Continues

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.

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 2020, ALK had 17,697 registered shareholders, versus 12,979 at the end of 2019. The registered shareholders owned 98% of the share capital (98%). As at 31 December 2020, 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 a 7.5% 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% (23%), 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 212,873 or 1.9% of its own shares (2.2% at the end of 2019) which is considered sufficient to cover current obligations related to ALK's long-term incentive programmes.

Major shareholders* and treasury shares as at 31 December 2020

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	830,794 B shares	7.5%	4.1%
ALK – own shares	Hørsholm, Denmark	212,873 B shares	1.9%	-

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

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 2019, the share price was DKK 1,635 and the share closed 2020 at DKK 2,500. The daily trading liquidity improved further during 2020 and averaged DKK 31 million (20).

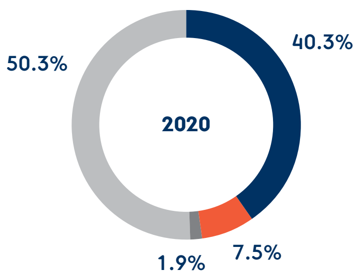
Dividend and capital structure

The Board of Directors considers that ALK's financial resources, including credit facilities, still constitute a sufficient financial basis for implementing the next stage of ALK's strategy. In support of the strategy, the Board of Directors is extending its recommendation that dividend payments be temporarily suspended until business profitability improves further. In line with this decision, at the annual general meeting in March 2021, the Board of Directors will propose that no dividend be declared.

The Board of Directors will revisit the dividend policy and ALK's capital structure on an ongoing basis during the next phase of the strategy.

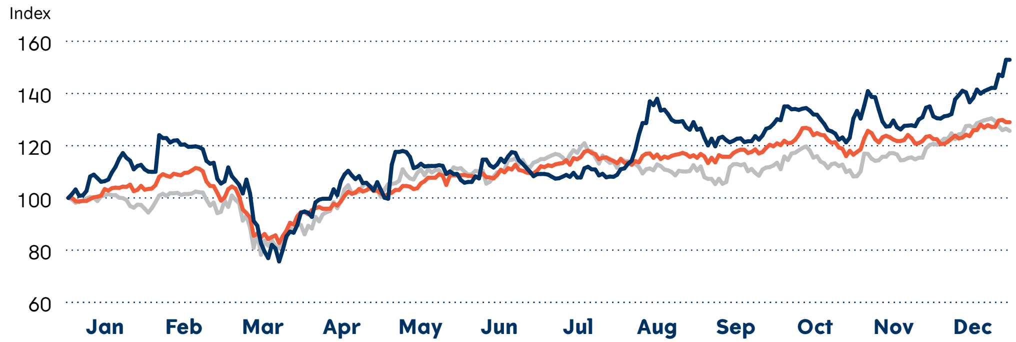
Shareholders as at 31 December 2020

The Lundbeck Foundation · ATP · ALK · Other



The ALK share in 2020

ALK · OMXC20 CAP (indexed) · Pharma, biotech and life sciences (NBI-NAS, indexed)



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Investor relations

Based on its investor relations (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 stakeholders in accordance with good IR practice and the provisions for companies listed on Nasdaq Copenhagen.

Besides hosting regular telephone conferences, ALK representatives held a large number of individual meetings and briefing calls with analysts and investors in 2020 and also presented at various investor conferences.

During the year, ALK published 13 company announcements (22), 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 analysts following the share, and related information. Registered shareholders are encouraged to sign up at the InvestorPortal.

Financial calendar 2021

Annual general meeting	18 March
Three-month interim report (Q1)	5 May
Six-month interim report (Q2)	11 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 commercial foundations in Denmark, the Lundbeck Foundation lives its purpose every day through engaged ownership of its three subsidiaries and an annual spend of at least 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 19 billion. The Lundbeck Foundation also invests in European and American life-science companies and supports a range of early-stage investment projects based on Danish research. 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 internal management of securities of around DKK 19 billion.

www.lundbeckfonden.com

Risk management

ALK's Board of Management is responsible for the ongoing management of risks throughout the value chain, 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 systematically assessed according to a two-dimensional matrix, rating the impact and probability of each risk. A risk management report with key risks and recommended mitigation plans is presented to Board of Management before it is submitted to the Board of Directors on an annual basis for their review and approval.

Production and sub-supplier issues impacting product supply

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.

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.

Dependency on third parties for supplying input for key production processes and commercialising the company's products in several markets entails risks that ALK would not be subject to if the company possessed the necessary in-house capabilities.

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.

ALK manages third party dependency risks through contractual stipulations, planning, monitoring, and joint steering committees.

Quality issues impacting patient safety and product supply

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.

Meeting high product quality standards is a prerequisite for the company's ability to supply products and hence its competitive strength.

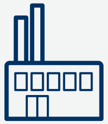
ALK's products may be associated with allergic reactions of varying extents, durations and severities. If such events occur in unexpected situations, they may have an impact on the company's earnings and sales.

Risk mitigation

Production and manufacturing processes are subject to periodic and routine inspections by regulatory authorities as a regular part of their monitoring processes to ensure that ALK observes the prescribed requirements and standards.

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 effectively and in accordance with regulatory requirements.

Continues



Failures or delays in product development

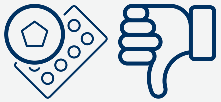
Description
The future success of ALK depends on the company's ability to maintain current products and to successfully identify, develop and market new, innovative drugs, which involves significant risks.

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. During 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.

Failures or delays in the development process or in obtaining regulatory approvals may have a major impact for the patients not being able to benefit from the products and 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.

ALK's Scientific Committee is responsible 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.



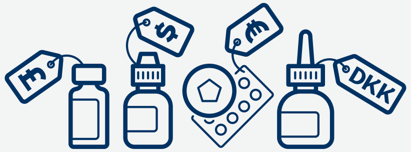
Tablets not gaining market acceptance

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 several 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 company's ability to generate revenue. Even if market acceptance of the tablets is successfully achieved, the extent of their acceptance could influence the company's ability to fully deliver on its sales -growth targets for 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.



Authorities introducing new pricing pressures

Description
In most of the countries in which ALK operates, prescription drugs are subject to reimbursement from, and price controls by, national authorities and healthcare providers. This often results in significant price differences between individual markets. Regulatory requirements and interventions, as well as price control measures, may therefore have a significant impact on the company's earnings capacity.

Exceptionally, governments and national authorities may introduce economic measures that also affect the pricing and reimbursement of medicines, for example, as a consequence of the impact of COVID on healthcare budgets or as a result of a major economic downturn.

Risk mitigation
ALK is strongly committed to evidenced-based medicine, based on strong clinical and health economic evidence as the basis for pricing and reimbursement. ALK actively engages in dialogue with authorities with the aim of securing fair pricing and reimbursement agreements and maintains a strong focus on its market access strategy.

Competition becoming more intense

Description
ALK operates in competitive markets. If, for instance, a competitor were to launch 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 pricing risks may have a material impact on ALK's ability to achieve its long-term goals.

Risk mitigation
ALK's Scientific Committee monitors the competitor landscape in global AIT research and development to ensure a timely response to developments by competitors or in the market. As a consequence, and to stay ahead of competition, 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.

Continues

IT security breaches impacting business continuity

Description
Disruption to IT systems, such as breaches of data security, may occur across the global value chain, where well-functioning IT systems and infrastructure are critical for the company'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 or 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.

Breaches of legal or ethical standards

Description
Non-compliance with applicable regulations, legislation, or ALK's Code of Conduct could negatively affect the company's good reputation which is essential for operating within the pharmaceutical industry.

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

Risk mitigation
ALK strives to act professionally, honestly, and with high integrity throughout the company in relation to stakeholders. ALK's Code of Conduct defines ALK's high standard of ethical behaviour in relation to customers, employees, shareholders, society, suppliers and partners. Immediate action is taken on substantiated non-compliance. Annually, all employees are asked to sign and confirm their knowledge of the Code of Conduct and to take an online test.

Internal controls and policies are in place to safeguard ALK's intellectual property rights. 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 monitored and, if necessary, suitable measures are taken.

Fluctuations in exchange rates and interest rates

Description
Due to the nature of its operations, investments and financing, ALK is exposed to fluctuations in exchange rates and interest rates, which could impact the company's cash flow and earnings.

Risk mitigation
The company'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. Company policy is to refrain from active financial speculation.

See note 25 of this annual report for a specification of the company's exposure to currency, interest rate and credit risks and its use of derivative financial instruments.

Remuneration

ALK's remuneration policy was prepared in accordance with the Danish Companies Act and approved by shareholders at the annual general meeting in 2020. The remuneration policy replaced the previous remuneration guidelines and guidelines for incentive pay, and governs the remuneration for the Board of Directors and Board of Management.

The overall aim of the remuneration policy is to outline the overall framework for remuneration at ALK and to provide shareholders with a clear, understandable and comprehensive overview of the remuneration provided by ALK. The objectives of the remuneration policy are to:

- Attract, motivate and retain qualified members of the Board of Directors and Board of Management
- Align the remuneration components to the interests of shareholders
- Contribute to promoting value creation at ALK and to support ALK's business strategy
- Ensure that the remuneration of individual members of Board of Management reflect the company's performance as well as individual results

In 2020, the remuneration for the Board of Directors and Board of Management followed the structure and principles outlined in the remuneration policy.

ALK has prepared a separate report that describes remuneration for the Board of Directors and Board of Management in more detail. The remuneration report provides an overview of the components in the remuneration for the Board of Directors and Board of Management, including an overview of the actual remuneration in 2020, the development in remuneration for the past three years, as well as the shareholdings of the Board of Directors and Board of Management. The remuneration report is available at https://ir.alk.net/corporate-governance.

Read the full remuneration report
Available at: https://ir.alk.net/corporate-governance

Board of Directors and Board of Management

Board of Directors

Anders Hedegaard (1960, male)

Rodenstock Group, CEO

Chairman
Board member since 2020**

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

Competences
Specific expertise within management and sales & marketing in international life science and consumer care companies.

Directorships
Orphazyme A/S

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 Remuneration 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, Chairman
H. Lundbeck A/S
The Lundbeck Foundation
Tecan AG, Switzerland
Naga UK Topco Limited, UK
Vitrolife AB, Sweden

Jakob Riis* (1966, male)

Falck A/S, President & CEO

Board member since 2013**

Chairman of the Audit Committee

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

Directorships
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 at the annual general meeting are subject to re-election each year

Board of Directors and Board of Management

Board of Directors – continued

Vincent Warnery (1968, male)

Beiersdorf AG, Executive Board Member

Board member since 2019**

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

Katja Barnkob (1969, female)

Project Director, Global CMC Development, 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)

Manager, QA Release, 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, Process & Production Support, 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.

** All members elected at the annual general meeting are subject to re-election each year

Attendence at meetings

● Attended ● Absent

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

[1] The Nomination Committee meets when required [2] elected at the AGM on 11 March 2020 [3] stepped down at the AGM on 11 March 2020 [4] employee-elected

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 (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, and 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 adopted the annual report of ALK-Abelló A/S for the financial year 1 January to 31 December 2020.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position at 31 December 2020 of the group and the parent company and of the results of the group and parent company operations and consolidated cash flows for the financial year 1 January to 31 December 2020.

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

In our opinion, the annual report of ALK-Abelló A/S for the financial year 1 January to 31 December 2020 identified as "ALK-2020-12-31.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

We recommend that the annual report be adopted at the annual general meeting.

Hørsholm, 10 February 2021

Board of Management

Carsten Hellmann
President & CEO

Henrik Jacobi
Executive Vice President,
Research & Development

Søren Jelert
Executive Vice President
& CFO

Søren Daniel Niegel
Executive Vice President,
Commercial Operations

Board of Directors

Anders Hedegaard
Chairman

Lene Skole
Vice Chairman

Katja Barnkob

Nanna Rassov Carlson

Lars Holmqvist

Jakob Riis

Johan Smedsrud

Vincent Warnery

Independent auditor's reports

To the shareholders of ALK-Abelló A/S

Report on the audit of the Financial Statements

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2020 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Statements Act.

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

What we have audited

The Consolidated Financial Statements and the Parent Company Financial Statements of ALK-Abelló A/S for the financial year 1 January to 31 December 2020 which comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group.

Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

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

Independence

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

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

Appointment

We were appointed auditors of ALK-Abelló A/S for the first time on 11 March 2020 for the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories Inventories of the Group comprise raw materials, work in progress and manufactured goods and goods for resale. Inventories are measured at cost determined under the FIFO method or net realisable value where this is lower. The valuation is based on a costing model, which includes a number of significant accounting judgements and estimates related to allocation of indirect production costs, including capacity utilisation, and the model for eliminating unrealised internal profit in the Consolidated Financial Statements. We focused on this area as the amounts involved are material and as the valuation is associated with significant accounting estimates and judgements. This includes the complex models for indirect production costs and eliminating unrealised internal profits and the assumptions used for measuring indirect production costs and unrealised internal profits. We refer to notes 2 and 15 in the Consolidated Financial Statements.	We evaluated and discussed inventory accounting policy with Management. We evaluated related application and monitoring controls. We selected a sample and tested the costing model for allocation of indirect production costs and analysed the allocation of indirect production costs between the Group's products. We selected a sample and tested product cost prices, including tests of raw material prices and allocated indirect production costs. We assessed and challenged Management's assumptions and judgements related to the allocation of indirect production costs, including capacity utilisation, and the assumptions used in eliminating unrealised internal profit. Furthermore, we tested the Group's model for eliminating unrealised internal profit in the Consolidated Financial Statements. We assessed the appropriateness of the related disclosure provided in the Consolidated Financial Statements.
Valuation of deferred tax assets A significant part of the recognised deferred tax assets relates to tax losses carried forward in Denmark. Utilisation of the recognised deferred tax assets is depending on the expected future taxable income within the Danish joint taxation group with the Lundbeck Foundation and its other subsidiaries. We focused on this area as the amounts involved are material and as the valuation of deferred tax assets is associated with significant accounting estimates and judgements. This includes the estimation uncertainty regarding assessing the future taxable profits in ALK-Abelló A/S and within the Danish joint taxation group. We refer to notes 2, 9 and 14 in the Consolidated Financial Statements.	We assessed the method applied by Management for calculating the deferred tax assets and assessing its valuation. We tested the calculation of the deferred tax assets prepared by Management and involved our internal tax specialist in assessing the tax calculation to ensure compliance with relevant tax legislation. We evaluated and challenged the documentation prepared by Management regarding the deferred tax asset, including Management's best estimate of the probability of realising the future taxable profits in Denmark and within the joint Danish taxation group, including sensitivity and risk analysis. We assessed the appropriateness of the related disclosure provided in the Consolidated Financial Statements.

Statement on Management's Review
Management is responsible for Management's Review, pages 1-46, and page 97.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on compliance with the ESEF Regulation

As part of our audit of the Financial Statements we performed procedures to express an opinion on whether the annual report of ALK-Abelló A/S for the financial year 1 January to 31 December 2020 with the filename ALK-2020-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

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

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

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

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

In our opinion, the annual report of ALK-Abelló A/S for the financial year 1 January to 31 December 2020 with the file name ALK-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Hellerup, 10 February 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Lars Baungaard
State Authorised
Public Accountant
mne23331

Kim Tromholt
State Authorised
Public Accountant
mne33251

Contents of the consolidated financial statements

Consolidated financial statements

Notes

Income statement

Amounts in DKKm	Note	2020	2019
Revenue	3	3,491	3,274
Cost of sales	4-6,15	1,463	1,382
Gross profit		**2,028**	**1,892**
Research and development expenses	4-6	515	466
Sales and marketing expenses	4-6	1,125	1,210
Administrative expenses	4-6	237	246
Other operating items, net	7	(1)	16
Operating profit/(loss) (EBIT)		**150**	**(14)**
Financial income	8	5	22
Financial expenses	8	54	39
Profit/(loss) before tax (EBT)		**101**	**(31)**
Tax on profit/(loss)	9	76	19
Net profit/(loss)		**25**	**(50)**
Earnings/(loss) per share (EPS)	17		
Earnings/(loss) per share (EPS)		2.29	(4.59)
Earnings/(loss) per share (DEPS), diluted		2.27	(4.59)

Statement of comprehensive income

Amounts in DKKm	Note	2020	2019
Net profit/(loss)		**25**	**(50)**
Items that will subsequently not be reclassified to the income statement:			
Actuarial gains/(losses) on pension plans	18	(3)	(37)
Tax related to actuarial gains/(losses) on pension plans		1	11
		(2)	**(26)**
Items that will subsequently be reclassified to the income statement, when specific conditions are met:			
Foreign currency translation adjustment of foreign affiliates		(106)	23
Tax related to other comprehensive income, that will subsequently be reclassified to the income statement		1	(3)
		(105)	**20**
Total		**(107)**	**(6)**
Total comprehensive income/(loss)		**(82)**	**(56)**

Cash flow statement

Amounts in DKKm	Note	2020	2019
Net profit / (loss)		**25**	**(50)**
Adjustments			
Adjustments for non-cash items	10	462	389
Changes in working capital	22	(154)	(95)
Financial income, received		4	5
Financial expenses, paid		(22)	(33)
Income taxes, paid (net)		(14)	(84)
Cash flow from operating activities		**301**	**132**
Acquisitions of companies and operations*		-	(20)
Sale of companies and operations	11	-	29
Investments in intangible assets	12	(26)	(20)
Investments in tangible assets	13	(196)	(147)
Investments in other financial assets**		(23)	1
Cash flow from investing activities		**(245)**	**(157)**
Free cash flow		**56**	**(25)**
Sale of treasury shares		11	11
Exercised share options, paid	5	(24)	(24)
Repayment of lease liabilities		(30)	(28)
Repayment of borrowings		(19)	(16)
Cash flow from financing activities		**(62)**	**(57)**
Net cash flow		**(6)**	**(82)**
Cash beginning of year		316	296
Marketable securities beginning of year		-	100
Cash and marketable securities beginning of year		**316**	**396**
Unrealised gain / (loss) on cash held in foreign currency and financial assets carried as cash and marketable securities		(12)	2
Net cash flow		(6)	(82)
Cash year end		298	316
Marketable securities year end		-	-
Cash and marketable securities year end		**298**	**316**

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.

** Relates to long-term prepayments to a strategic supplier.

Balance sheet

Amounts in DKKm	Note	31 Dec. 2020	31 Dec. 2019
Assets			
Non-current assets			
Intangible assets			
Goodwill	12	452	461
Other intangible assets	12	172	221
		624	**682**
Tangible assets			
Land and buildings	13	921	1,023
Plant and machinery	13	442	325
Other fixtures and equipment	13	72	61
Property, plant and equipment in progress	13	269	330
		1,704	**1,739**
Other non-current assets			
Receivables		30	46
Deferred tax assets	14	697	620
Income tax receivables		168	160
		895	**826**
Total non-current assets		**3,223**	**3,247**
Current assets			
Inventories	15	1,093	1,056
Trade receivables	16	544	407
Receivables from group companies	27	20	116
Income tax receivables		24	9
Other receivables		96	133
Prepayments		265	211
Cash		298	316
Total current assets		**2,340**	**2,248**
Total assets		**5,563**	**5,495**

Amounts in DKKm	Note	31 Dec. 2020	31 Dec. 2019
Equity and liabilities			
Equity			
Share capital	17	111	111
Currency translation adjustment		(125)	(19)
Retained earnings		3,167	3,084
Total equity		**3,153**	**3,176**
Liabilities			
Non-current liabilities			
Mortgage debt	19	240	259
Bank loans	19	446	448
Pensions and similar liabilities	18	345	297
Lease liabilities	24	207	234
Deferred tax liabilities	14	-	4
Income taxes		143	143
		1,381	**1,385**
Current liabilities			
Mortgage debt	19	18	18
Trade payables		74	81
Lease liabilities	24	32	31
Other provisions	20	3	23
Income taxes		21	20
Other payables	21	880	760
Deferred income		1	1
		1,029	**934**
Total liabilities		**2,410**	**2,319**
Total equity and liabilities		**5,563**	**5,495**

Statement of changes in equity

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2020				
Equity at 1 January	**111**	**(19)**	**3,084**	**3,176**
Net profit/(loss)	-	-	25	25
Other comprehensive income/(loss)	-	(106)	(1)	(107)
Total comprehensive income/(loss)	**-**	**(106)**	**24**	**(82)**
Share-based payments	-	-	29	29
Share options settled	-	-	(24)	(24)
Sale of treasury shares	-	-	11	11
Tax related to items recognised directly in equity	-	-	43	43
Other transactions	**-**	**-**	**59**	**59**
Equity at 31 December	**111**	**(125)**	**3,167**	**3,153**

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2019				
Equity at 1 January	**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	**111**	**(19)**	**3,084**	**3,176**

Notes to the consolidated financial statements

1 Accounting policies

General

The consolidated financial statements for the period 1 January to 31 December 2020 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 2020
The ALK Group has implemented all new and amended standards and interpretations (IFRIC) which are effective for the financial year 2020. This has not resulted in any changes to the accounting policies of the ALK Group.

New standards effective after 1 January 2021
A number of IFRS standards, amended standards and IFRIC interpretations, which are effective on or after 1 January 2021, 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 2020 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, and has the right to variable returns from the entity.

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 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

Notes to the consolidated financial statements

1 Accounting policies – continued

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.

Share-based incentive plans
Share-based incentive plans (equity-settled share-based payments), which comprise share options and performance share units, 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 fair value of performance share units is determined using the average share price (closing) 5 days after annual general meeting.

The ALK Group settles the equity-settled share-based 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.

Uncertain tax position 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 uncertain tax positions 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 utilised against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilise 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 primary performance obligation of the ALK Group is the sale and delivery of own-manufactured goods and goods for resale for allergy treatment. Revenue from the sale of goods is recognised in the income statement upon the control of the goods being transferred to the customer, i.e. when goods are delivered. Revenue is recognised by the ALK Group at a point in time.

The ALK Group's customers have payment terms that reflect the customer type and the market in which sales take place, which typically varies from 0 to 180 days.

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 the income statement in accordance with the agreements and when the ALK Group obtains the right to the payments, which is at the point in time the subsequent sales occur or services have been delivered to the customer.

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

Notes to the consolidated financial statements

1 Accounting policies – continued

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

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 expected useful lives of the assets, typically 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

Notes to the consolidated financial statements

1 Accounting policies – continued

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 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, investments and other financial assets are measured at cost, corresponding to fair value. They are subsequently measured at fair value either through the income statement or through comprehensive income.

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

Notes to the consolidated financial statements

1 Accounting policies – continued

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 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 ALK Group's incremental borrowing rate 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 not recognised as part of lease liabilities. They are recognised in the income statement when incurred as an operating expense.

Other financial liabilities
Other financial liabilities, including bank loans and 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 amortised 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 86.

Notes to the consolidated financial statements

1 Accounting policies – continued

Reporting under the ESEF regulation
The Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF) (ESEF Regulation) has introduced a single electronic reporting format for the annual financial reports of issuers with securities listed on the EU regulated markets.

The ESEF Regulation sets out the following main requirements: (1) Issuers shall draw up and disclose their annual financial reports using the XHTML format; and (2) issuers that draw-up their primary consolidated financial statements in accordance with IFRS as endorsed by the EU shall tag those consolidated financial statements using inline eXtensible Business Reporting Language (iXBRL) and with effect from the 2022 annual report block-tag the notes to the consolidated financial statements.

The combination of the XHTML format with the iXBRL tags makes the annual financial reports both human-readable and machine-readable, thus enhancing accessibility, analysis and comparability of the information included in the annual financial reports.

iXBRL tags shall comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation.

As part of the tagging process financial statement line items are marked up to elements in the ESEF taxonomy. If a financial statement line item is not defined in the ESEF taxonomy, an extension to the taxonomy is created. Extensions have to be anchored to elements in the ESEF taxonomy, except for elements corresponding to subtotals.

The annual report 2020 for the ALK Group submitted to the Danish Financial Supervisory Authority (The Officially Appointed Mechanisms) consists of the XHTML document together with some technical files all included in a ZIP file named "ALK-2020-12-31.zip".

Key definitions
XHTML (eXtensible HyperText Markup Language) is a text-based markup language used to structure and mark up content such as text, images, and hyperlinks in documents that are displayed as Web pages in an updated standard Web browser like Chrome, Internet Explorer or Safari.

iXBRL tags (or Inline XBRL tags) are hidden meta-information embedded in the source code of an XHTML document in accordance with the Inline XBRL 1.1 specification, which enables the conversion of XHTML-formatted information into a machine-readable XBRL data record by appropriate software.

The tagging process is a process where iXBRL tags are applied to financial statement line items, etc.

Taxonomy is an electronic dictionary of business reporting elements used to report business data. A taxonomy element is an element defined in a taxonomy that is used for the machine-readable labeling of information in an XBRL data record.

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 2020, 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 2020, the carrying amount of goodwill is DKK 452 million (2019: DKK 461 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 the production process. If the expected sales price less any completion costs and costs to execute sales (net realisable value) of inventories is lower than the carrying amount, the inventories are written down to net realisable value. When assessing salability and net realisable 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 capitalised under inventories amounted to DKK 377 million at the end of 2020 (2019: DKK 348 million). At 31 December 2020, the carrying amount of inventories is DKK 1,093 million (2019: DKK 1,056 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 utilised against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilise 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. The forecasts for ALK-Abelló A/S with increased positive results (EBT) is based on growth in revenue and earnings driven by SLIT-tablets.

At 31 December 2020, the value of the total net deferred tax asset is DKK 697 million (2019: DKK 616 million). It includes a net deferred tax asset in Denmark related to tax losses carried forward of DKK 322 million (2019: DKK 372 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 2020, 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. Estimates 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 2020, DKK 135 million is recognised as accrued expenses (2019: DKK 105 million) and DKK 218 million as prepayments on the balance sheet (2019: DKK 166 million). In 2020, clinical trials expenses of DKK 154 million have been recognised in the income statement (2019: DKK 144 million).

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	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
SCIT/SLIT-drops	1,320	1,454	275	306	78	58	1,673	1,818
SLIT-tablets	1,019	735	85	85	266	153	1,370	973
Other products and services	211	179	213	278	24	26	448	483
Total revenue	**2,550**	**2,368**	**573**	**669**	**368**	**237**	**3,491**	**3,274**
Sale of goods							3,429	3,240
Royalties							58	34
Services							4	-
Total revenue							**3,491**	**3,274**

Of total revenue, DKK 83 million (2019: DKK 75 million) is derived from Denmark. The geographical information on markets is based on customer location.

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	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Non-current tangible and intangible assets	1,629	1,616	695	800	4	5	2,328	2,421

Of total non-current tangible and intangible assets, DKK 1,257 million relates to assets in Denmark (2019: DKK 1,227 million). The geographical information on assets is based on asset location.

Notes to the consolidated financial statements

4 Staff costs

Amounts in DKKm	2020	2019
Wages and salaries	1,342	1,303
Pensions, cf. note 18	110	111
Other social security costs, etc.	197	185
Share-based payments, cf. note 5	28	34
Total	**1,677**	**1,633**
Staff costs are allocated as follows:		
Cost of sales	643	621
Research and development expenses	227	209
Sales and marketing expenses	544	555
Administrative expenses	208	205
Included in the cost of assets	55	43
Total	**1,677**	**1,633**
Remuneration to Management:		
Remuneration to Board of Management:*		
Salaries	18	16
Cash bonuses	10	9
Pensions	1	1
Expensed costs regarding share-based payments, cf. note 5	11	13
Total remuneration to Board of Management	**40**	**39**
Remuneration to Board of Directors:**		
Remuneration to Board of Directors	4	4
Total remuneration to Board of Management and Board of Directors	**44**	**43**
Employees		
Average number (FTE)	2,419	2,385
Number year end (FTE)	2,447	2,391

* The expensed costs include DKK 3 million (2019: 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 385,000 (2019: DKK 350,000), the Remuneration Committee DKK 350,000 (2019: DKK 350,000) and the Scientific Committee DKK 150,000 (2019: DKK 150,000). The remaining remuneration relates to regular Board of Directors activities.

5 Share-based payments

The ALK Group has established long-term equity-based incentive plans linked to the creation of shareholder value and the fulfilment of strategic goals. The plans are established for the members of Board of Management and other key employees, reward long-term value creation and align to interests of the shareholders.

The incentive plans consist of share options and performance share units.

Ordinary incentive plans
The share options entitle the holder to acquire one existing B share of DKK 10 nominal value in the company per share option and the performance share units entitle the holder to receive one existing B share per performance share unit free of charge.

The vesting period for both share options and performance share units is three years after grant. Vesting is conditional upon certain targets being met and upon the participant not having resigned. Target achievement is met upon fulfilment of strategic key performance indicators. In case performance is below the threshold there will be no units vesting, and if above target, a multiplier is applied that can increase the vesting by up to 100%.

The exercise of share options is possible in the trading windows following the release of annual and interim reports conditional upon the share option holder not having resigned at the time of exercise. For performance share units, the final transfer of ownership takes place at vesting three years after the grant.

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 share units with a vesting period of three years. 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 share units 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.

For both the ordinary incentive plan 2018 and the special incentive plan 2018, for a limited number of share options (45,441) and performance share units (11,458), the vesting can be increased by up to 300%.

Sign on plan, CEO
In connection with the employment of Carsten Hellmann in 2017, a CEO sign-on plan was launched. No KPIs were linked to the plan, which vested in January 2018 with an expiration date on 1 January 2024.

Share options and performance share units are considered sufficiently covered by treasury shares.

Notes to the consolidated financial statements

5 Share-based payments – continued

Specification of outstanding share options and performance share units:

	Share options				Performance share units		
	Board of Manage-ment units	Other key em-ployees units	Total units	Weighted average exercise price DKK	Board of Manage-ment units	Other key em-ployees units	Total units
2020							
Outstanding at 1 January	98,263	62,293	160,556	904	13,569	36,257	49,826
Additions	13,253	12,130	25,383	1,332	3,024	12,528	15,552
Exercised/settled	(21,758)	(15,085)	(36,843)	954	(3,149)	(12,774)	(15,923)
Cancellations	-	-	-	-	-	(585)	(585)
Outstanding at 31 December	**89,758**	**59,338**	**149,096**	**972**	**13,444**	**35,426**	**48,870**
Total number of vested share options			32,467				
Average remaining life at year end (years)			2.6				
Exercise prices at year end (DKK)			783-1,372				

The Board of Directors decided for two trading windows in 2020 to settle share options by cash and a total of 24,945 share options were exercised and total cash payments amounted to DKK 24 million. For two trading windows the Board of Directors decided to settle share options by shares and a total of 11,898 share options were exercised.

5 Share-based payments – continued

Specification of outstanding share options and performance share units:

	Share options				Performance share units		
	Board of Manage-ment units	Other key em-ployees units	Total units	Weighted average exercise price DKK	Board of Manage-ment units	Other key em-ployees units	Total units
2019							
Outstanding at 1 January	104,020	94,869	198,889	841	11,301	30,546	41,847
Additions	14,898	10,509	25,407	1,120	3,200	10,797	13,997
Exercised/settled	(20,655)	(38,570)	(59,225)	818	(932)	(3,377)	(4,309)
Expired	-	(1,350)	(1,350)	474	-	-	-
Cancellations	-	(3,165)	(3,165)	852	-	(1,709)	(1,709)
Outstanding at 31 December	**98,263**	**62,293**	**160,556**	**904**	**13,569**	**36,257**	**49,826**
Total number of vested share options			42,513				
Average remaining life at year end (years)			3.1				
Exercise prices at year end (DKK)			487-1,183				

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 share options were exercised.

Notes to the consolidated financial statements

5 Share-based payments – continued

Outstanding share options and performance share units have the following characteristics:

	Share options					Performance share units	
Plan	Units	Average exercise price DKK	Vested as per	Exercise period (years)		Units	Vested as per
2014 Plan	100	795	1 Mar 2017	4			
2015 Plan	4,025	856	1 Mar 2018	4			
2016 Plan	5,050	1,100	1 Mar 2019	4			
2017 Sign on plan, CEO	17,068	924	1 Jan 2018	6			
2017 Plan	6,224	1,025	1 Mar 2020	2			
2018 Plan	30,873	793	1 Mar 2021	2		15,607	1 Mar 2021
2018 Plan – special plan	43,341	793	1 Mar 2021	2		8,708	1 Mar 2021
2019 Plan	23,738	1,127	1 Mar 2022	2		13,241	1 Mar 2022
2020 Plan	18,677	1,442	1 Mar 2023	2		11,314	1 Mar 2023
Outstanding at 31 December	**149,096**					**48,870**	

5 Share-based payments – continued

Expensed in the income statement:

Amounts in DKKm	**2020**	2019
Cost for the year regarding share-based payments is recognised as follows:		
Cost of sales	3	4
Research and development expenses	6	7
Sales and marketing expenses	9	11
Administrative expenses	10	12
Financial expenses	1	5
Total	**29**	**39**

In 2020, the total cost of share-based payments included a financial expense of DKK 1 million due to the exercise and cash settlement of share options plans (2019: DKK 5 million) and DKK 5 million related to adjustment in the share options and performance share units expected to vest (2019: DKK 13 million).

Fair value of share options and performance share units granted:

Share options

Fair value at grant date is measured in accordance with the Black & Scholes model for valuation of share options, using the following assumptions:

	2020 Plan	2019 Plan
Average share price (DKK)	1,372	1,072
Expected exercise price (DKK)*	1,477	1,154
Expected volatility rate**	34% p.a.	32% p.a.
Expected option life	4 years	4 years
Expected dividend per share	-	-
Risk-free interest rate	-0.01% p.a.	-0.44% p.a.
Calculated fair value of granted share options (DKK)	328	233

* 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.

Performance share units

Performance share units have been granted at the average market price of the share for the five trading days immediately preceding the date of grant at DKK 1,372 per share (2019: DKK 1,072 per share).

Notes to the consolidated financial statements

6 Depreciation, amortisation and impairment

Amounts in DKKm	2020	2019
Depreciation, amortisation and impairment allocation:		
Cost of sales	152	170
Research and development expenses	26	7
Sales and marketing expenses	29	35
Administrative expenses	38	43
Total	**245**	**255**

Impairment amounts to DKK 38 million (2019: DKK 30 million), of which DKK 16 million relate to tangible assets (2019: DKK 30 million) and DKK 22 million relate to intangible assets (2019: DKK 0).

The impairment of tangible assets is related to impairment of production equipment with no recoverable amount after impairment. The impairment is recognised as cost of sales.

The impairment of intangible assets is related to impairment of acquired intellectual property rights of DKK 13 million and software of DKK 9 million with no recoverable amount after impairment. The impairment is recognised with DKK 19 million as research and development expenses and DKK 3 million as cost of sales.

7 Other operating items, net

In 2020, other operating items include other operating expenses of DKK 1 million related to sale of production equipment.

In 2019, other operating items included other operating income of DKK 16 million of which income of DKK 15 million related to sale of the North American Veterinary Business Unit effective from 30 November 2019. See note 11 for further information.

8 Financial income and expenses

Amounts in DKKm	2020	2019
Interest income	5	5
Financial income from financial assets measured at amortised cost	5	5
Interest income on uncertain tax positions, net	-	11
Interest income on marketable securities	-	1
Currency gains, net	-	5
Total financial income	**5**	**22**
Interest expenses*	30	39
Financial expenses from financial liabilities measured at amortised cost	30	39
Interest expenses on uncertain tax positions, net	4	-
Currency losses, net	20	-
Total financial expenses	**54**	**39**

* Includes interest expenses related to leasing of DKK 8 million (2019: DKK 8 million).

Notes to the consolidated financial statements

9 Tax on profit/(loss) for the year

Amounts in DKKm	2020	2019
Current income tax	117	51
Adjustment of deferred tax	(38)	(32)
Prior year adjustments, income tax	(3)	8
Prior year adjustments, deferred tax	-	(8)
Total	**76**	**19**
Profit/(loss) before tax	101	(31)
Income tax, tax rate of 22% (2019: 22%)	22	(7)
Effect of deviation of foreign subsidiaries' tax rate relative to Danish tax rate	15	41
Permanent differences	(2)	3
Adjustment of deferred tax due to coming year change of tax rate	-	3
Other taxes and adjustments	46	1
Change in valuation of net tax assets	(2)	(22)
Prior year adjustments, income tax	(3)	8
Prior year adjustments, deferred tax	-	(8)
Tax on profit/(loss) for the year	**76**	**19**

Tax related to equity comprises an income of DKK 43 million (2019: income of DKK 27 million) and other comprehensive income comprises an income of DKK 2 million (2019: income of DKK 8 million).

10 Adjustments for non-cash items

Amounts in DKKm	2020	2019
Tax on profit/(loss)	76	19
Financial income and expenses	49	17
Share-based payments	29	39
Reversal of accounting gain on sale of companies and operations	-	(14)
Depreciation, amortisation and impairment	245	255
Other adjustments*	63	73
Total	**462**	**389**

* Other adjustments include mainly provision for transition period for the Danish Holiday Act of DKK 39 million (2019: DKK19 million) and 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 37 million (2019: DKK 24 million).

11 Sale of companies and operations

No companies or operations were sold in 2020.

Effective 30 November 2019, ALK 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 was 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
2020					
Cost beginning of year	483	400	240	251	1,374
Currency adjustments	(8)	(1)	(9)	(2)	(20)
Additions	-	3	-	23	26
Disposals	-	(7)	-	(26)	(33)
Transfer to/from other groups	-	1	-	(1)	-
Cost year end	**475**	**396**	**231**	**245**	**1,347**
Amortisation and impairment beginning of year	22	299	208	163	692
Currency adjustments	1	(2)	(7)	(1)	(9)
Amortisation for the year	-	23	13	11	47
Amortisation on disposals	-	(7)	-	(22)	(29)
Impairment for the year, cf. note 6	-	-	-	22	22
Amortisation and impairment year end	**23**	**313**	**214**	**173**	**723**
Carrying amount year end	**452**	**83**	**17**	**72**	**624**
2019					
Cost beginning of year	488	353	277	281	1,399
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**	**400**	**240**	**251**	**1,374**
Amortisation and impairment beginning of year	23	283	216	152	674
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**	**299**	**208**	**163**	**692**
Carrying amount year end	**461**	**101**	**32**	**88**	**682**

12 Intangible assets – continued

Goodwill
Goodwill is related to acquisition of companies in previous years and is recognised as the excess of the cost of an acquired company over the fair value of the acquired assets, liabilities and contingent liabilities.

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 2020 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 due to 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 five year forecast period (2021-2025), the cash flows in the most recent period have been extrapolated adjusted for a growth factor of 1.5% (2019: 1.5%) during the terminal period.

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

The discount rate used is 10% pre-tax and 7.5% after tax (2019: 10% pre-tax and 7.5% 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
2020					
Cost beginning of year	1,533	807	244	421	3,005
Currency adjustments	(58)	(23)	(4)	(9)	(94)
Additions	15	15	9	167	206
Lease contract modifications	1	-	-	-	1
Disposals	(1)	(34)	(14)	(18)	(67)
Transfer to/from other groups	3	177	21	(201)	-
Cost year end	**1,493**	**942**	**256**	**360**	**3,051**
Depreciation and impairment beginning of year	510	482	183	91	1,266
Currency adjustments	(13)	(15)	(3)	-	(31)
Depreciation for the year	76	66	18	-	160
Depreciation of disposals	(1)	(33)	(14)	(16)	(64)
Impairment for the year, cf. note 6	-	-	-	16	16
Depreciation and impairment year end	**572**	**500**	**184**	**91**	**1,347**
Carrying amount year end	**921**	**442**	**72**	**269**	**1,704**
of which financing costs					-
Value of land and buildings subject to mortgages					197

* 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
2019					
Cost beginning of year	1,339	903	241	364	2,847
Initial application of IFRS 16 beginning of year	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.

Notes to the consolidated financial statements

13 Property, plant and equipment – continued

Specification of right-of-use assets:

Amounts in DKKm	Land and buildings	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
2020					
Cost beginning of year	293	-	2	-	295
Currency adjustments	(9)	-	-	-	(9)
Additions	10	-	-	-	10
Lease contract modifications	1	-	-	-	1
Cost year end	**295**	**-**	**2**	**-**	**297**
Depreciation beginning of year	35	-	1	-	36
Currency adjustments	(2)	-	-	-	(2)
Depreciation for the year, cf. note 24	36	-	-	-	36
Depreciation year end	**69**	**-**	**1**	**-**	**70**
Carrying amount year end	**226**	**-**	**1**	**-**	**227**

13 Property, plant and equipment – continued

Specification of right-of-use assets:

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	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, cf. note 24	35	-	1	-	36
Depreciation of disposals	(32)	-	-	-	(32)
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
2020						
Carrying amount beginning of year	11	(100)	206	117	382	616
Adjustment to prior years' deferred tax	-	(1)	(17)	19	(1)	-
Adjustment of receivables from group companies	-	-	-	-	(2)	(2)
Currency adjustments	1	3	(1)	(2)	(1)	-
Recognised in the income statement, net	(19)	(5)	117	(2)	(55)	36
Change in valuation of net tax assets	-	-	-	2	-	2
Recognised in other comprehensive income, net	-	-	-	1	1	2
Recognised in equity, net (share-based payments)	-	-	35	-	8	43
Carrying amount year end	**(7)**	**(103)**	**340**	**135**	**332**	**697**
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 group companies	-	-	-	-	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**

Deferred tax consists of deferred tax assets of DKK 697 million (2019: DKK 620 million) and deferred tax liabilities of DKK 0 (2019: DKK 4 million).

The ALK Group recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilised against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilise 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 amount to DKK 16 million and primarily relate to US entities (2019: DKK 19 million).

Notes to the consolidated financial statements

15 Inventories

Amounts in DKKm	**2020**	2019
Raw materials*	209	214
Work in progress	438	447
Manufactured goods and goods for resale	446	395
Total	**1,093**	**1,056**
Amount of write-down of inventories during the year	45	53
Amount of reversal of write-down of inventories during the year**	10	21

The total cost of materials included in cost of sales amounted to DKK 357 million (2019: DKK 326 million).

The net carrying amount of inventory not expected to be sold in 2021 is estimated at DKK 225 million (2020: DKK 263 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 valued.

**Reversal of provision for slow moving items, sold in 2020.

16 Trade receivables

Amounts in DKKm		Days past due			
	Not due	<180 days	180-360	>360 days	Total
2020					
Average expected credit loss rate	1%	8%	14%	50%	
Trade receivables (gross)	475	71	7	6	559
Loss allowance	5	6	1	3	15
Trade receivables (net)	**470**	**65**	**6**	**3**	**544**
Loss allowance:					
Balance beginning of year					12
Change in allowances during the year					6
Realised losses during the year					(3)
Loss allowance, year end					**15**
2019					
Average expected credit loss rate	0%	8%	50%	83%	
Trade receivables (gross)	358	51	4	6	419
Loss allowance	1	4	2	5	12
Trade receivables (net)	**357**	**47**	**2**	**1**	**407**
Loss allowance:					
Balance beginning of year					11
Change in allowances during the year					7
Realised losses during the year					(6)
Loss allowance, year end					**12**

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

Notes to the consolidated financial statements

17 Share capital and earnings per share

Amounts in DKKm	2020	2019
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. AA shares no longer held by individuals or legal entities other than the Lundbeck Foundation (Lundbeckfond Invest A/S) or companies which are group affiliated with the Lundbeck Foundation, cf. the definition of groups in section 6 of the Danish Companies Act, or in the event that a company which holds AA shares is no longer group affiliated with the Lundbeck Foundation, such AA shares shall be transferred to the B share capital.

Treasury shares		
Treasury shares beginning of year (B-shares), units	240,694	263,203
Sale of treasury shares, units	(27,821)	(22,509)
Treasury shares year end (B-shares), units	**212,873**	**240,694**
Proportion of share capital year end	1.9%	2.2%
Nominal value year end	2.1	2.4
Market value year end	532	394
Earnings per share		
The calculation of earnings per share is based on the following:		
Net profit/(loss)	25	(50)
Number in units:		
Average number of issued shares	11,141,196	11,141,196
Average number of treasury shares	(225,139)	(252,533)
Average number of shares used for calculation of earnings/(loss) per share	**10,916,057**	**10,888,663**
Average dilutive effect of outstanding share options	78,328	61,114
Average number of shares used for calculation of diluted earnings/(loss) per share	**10,994,385**	**10,949,777**
Earnings/(loss) per share (EPS)	**2.29**	**(4.59)**
Earnings/(loss) per share, diluted (DEPS)	**2.27**	**(4.59)**

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 incentive plans.

At year end 2020 the amount of A shares was 920,760 (2019: 920,760), AA shares 92,076 (2019: 92,076) and B shares 10,128,360 (2019: 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, France and Switzerland. The defined benefit plans guarantee employees a certain level of pension benefits for life. The pension is based on seniority and salary at the time of retirement. 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	2020	2019
Costs related to defined contribution plans	86	84
Costs related to defined benefit plans	24	27
Total	**110**	**111**
Present value of funded pension obligations	20	20
Fair value of plan assets	(13)	(13)
Funded pension obligations, net	**7**	**7**
Present value of unfunded pension obligations	268	257
Pension obligations	**275**	**264**
Anniversary liabilities	12	11
Indemnity fund	-	1
Other liabilities*	58	21
Pension obligations and similar liabilities, year end	**345**	**297**

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 19.64 years (2019: 20.12 years).

* Other liabilities include liability related to the transition period for the Danish Holiday Act of DKK 58 million (2019: DKK 19 million).

Notes to the consolidated financial statements

18 Pensions and similar liabilities – continued

Amounts in DKKm	2020	2019
The principal assumptions used for the actuarial valuations		
Discount rate range of 0.2% - 0.8% (weighted average rate)	0.7%	0.8%
Expected future rate of salary increase range of 1% - 2.5% (weighted average rate)	2.4%	2.0%
Assumed life expectations on retirement age for current pensioners (years based on weighted average)*:		
Males	21.1	21.6
Females	24.8	25.4
Assumed life expectations on retirement age for current employees (future pensioners) (years based on weighted average)*:		
Males	22.3	23.2
Females	26.2	27.3
Sensitivity analysis:		
Significant actuarial assumptions for determining the defined benefit obligation		
Discount rate, effect in case of increase in range of 0.25% - 1%**	(43)	(41)
Discount rate, effect in case of decrease in range of 0.25% - 1%**	56	54
Salary, effect in case of 0.25% - 0.5% increase**	5	4
Salary, effect in case of 0.25% - 0.5% decrease**	(5)	(4)
Life expectancy, effect in case of increase by 1 year*	12	11
Life expectancy, effect in case of decrease by 1 year*	(12)	(11)
Movements in the present value of the defined benefit obligation in the current year		
Opening defined benefit obligation	20	15
Current service costs	2	1
Actuarial (gains)/losses from changes in financial assumptions	-	2
Actuarial (gains)/losses arising from experience adjustments	(1)	-
Benefits paid	(1)	1
Currency translation adjustment	-	1
Closing defined benefit obligation	**20**	**20**

18 Pensions and similar liabilities – continued

Amounts in DKKm	2020	2019
Movements in the fair value of the plan assets in the current year		
Opening fair value of plan assets	13	11
Contribution from plan participants	1	1
Benefits paid	(1)	1
Closing fair value of plan assets	**13**	**13**
Movements in present value of unfunded pension obligations in the current year		
Opening present value of unfunded pension obligations	257	211
Current service costs	8	11
Interest costs	2	3
Actuarial (gains)/losses from changes in financial assumptions	7	37
Actuarial (gains)/losses arising from experience adjustments	(1)	(3)
Actuarial (gains)/losses arising from demographic adjustments	(2)	-
Benefits paid	(3)	(2)
Closing present value of unfunded pension obligations	**268**	**257**
Amount recognised as staff expenses in the income statement		
Current service costs	10	12
Net interest expense	2	3
Total	**12**	**15**
Amount recognised in comprehensive income in respect of defined benefit plans		
Actuarial (gains)/losses	3	37
Total	**3**	**37**

The expected contribution for 2021 for the defined benefit plans is DKK 12 million (2020: DKK 8 million).

The most recent actuarial valuations of the defined benefit liability were carried out by external independent actuary agents at 31 December 2020. In 2020, a pension plan has been reclassified and comparative figures have been adjusted accordingly.

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

Notes to the consolidated financial statements

19 Mortgage debt and bank loans

	Carrying amount		Fair value	
Amounts in DKKm	**2020**	2019	**2020**	2019
Debt to mortgage credit institutions secured by real property				
Mortgage debt is due as follows*:				
Within 1 year	18	18	18	18
From 1-5 years	72	71	73	72
After 5 years	168	188	172	191
Total	**258**	**277**	**263**	**281**
Bank loans				
Bank loans are due as follows:				
Within 1 year	-	-	-	-
From 1-5 years	446	448	446	448
After 5 years	-	-	-	-
Total	**446**	**448**	**446**	**448**
Mortgage debt and bank loans are recognised accordingly:				
Non-current liabilities	686	707		
Current liabilities	18	18		

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 2020 none of this resource was drawn upon.

* Change in mortgage debt during the year of DKK 19 million is cash flows from financing activities (2019: DKK 16 million).

20 Other provisions

Amounts in DKKm	Restructuring programs*	Acquisition of operating assets**	Other provisions***	Total
2020				
Other provisions beginning of year	19	-	4	23
Used during the year*	(19)	-	(1)	(20)
Other provisions, year end* **	**-**	**-**	**3**	**3**
Other provisions are recognised as follows:				
Current liabilities	-	-	3	3
Other provisions, year end	**-**	**-**	**3**	**3**
2019				
Other provisions beginning of year	3	20	5	28
Provisions made during the year	16	-	3	19
Used during the year**	-	(20)	(2)	(22)
Reversals during the year	-	-	(2)	(2)
Other provisions, year end	**19**	**-**	**4**	**23**
Other provisions are recognised as follows:				
Current liabilities	19	-	4	23
Other provisions, year end	**19**	**-**	**4**	**23**

* There is no provision for restructuring programs (2019: DKK 19 million). Provision for restructuring of ALK's Italian entity ALK-Abelló S.p.A. (2019: DKK 16 million) and restructuring of production in Denmark (2019: DKK 3 million) was used during 2020.

** ALK's acquisition of the operating assets in Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC in 2017 was fully paid in 2019.

*** Other provisions include a provision for sales in Italy of DKK 3 million (2019: DKK 4 million).

Notes to the consolidated financial statements

21 Other payables

Amounts in DKKm	2020	2019
Rebates and commissions	243	177
Salaries, holiday payments etc.	242	253
VAT and other taxes	109	65
Other	286	265
Total	**880**	**760**

22 Changes in working capital

Amounts in DKKm	2020	2019
Change in inventories	(69)	(54)
Change in receivables and prepayments	(159)	(200)
Change in short-term payables	74	159
Total	**(154)**	**(95)**

23 Contingent liabilities and commitments

Contingent liabilities
In the ordinary course of business, the ALK Group is involved in certain claims, disputes etc. In the opinion of Management, settlement or continuation 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.

23 Contingent liabilities and commitments – continued

Commitments
Land and buildings provided as security vis-à-vis for mortgage debt amount to DKK 197 million (2019: DKK 209 million) out of mortgage debt of DKK 258 million (2019: DKK 277 million).

Change of control
The ALK Group's credit facilities are subject to standard change of control clauses according to which the lender has the right to cancel the commitment and demand repayment of outstandings.

24 Leases

Leases in the income statement

Amounts in DKKm	2020	2019
Expenses from short-term leases	1	4
Expenses from low-value assets (including cars)	19	18
Depreciation of right-of-use assets, cf. note 13	36	36
Interest expenses on lease liabilities	8	8
Total	**64**	**66**

Cash outflow related to lease agreements was DKK 38 million (2019: DKK 37 million).

Lease liabilities

Amounts in DKKm	2020	2019
Lease liabilities expire as follows:		
Within 1 year	32	31
From 1-5 years	109	113
After 5 years	98	121
Total	**239**	**265**

Notes to the consolidated financial statements

25 Financial risks and 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 dividend policy of the ALK Group is to distribute maximum possible dividend to ALK-Abelló A/S.

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. 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.

25 Financial risks and 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 2020, 15% (2019: 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 2020 or 31 December 2019.

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. In the sensitivity analysis, data for revenue and EBITDA are based on current short-term expectations and data for equity are based on actual equity at 31 December 2020.

Amounts in DKKm	Revenue	EBITDA	Equity
31 December 2020			
USD	approx.+60	approx. 0	approx. +90
31 December 2019			
USD	approx.+75	approx. 0	approx. +95

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

Notes to the consolidated financial statements

25 Financial risks and financial instruments – continued

Net positions

Amounts in DKKm	Cash	Receivables	Liabilities	Amount hedged	Net position
31 December 2020					
DKK	18	124	(936)	-	(794)
USD	65	88	(144)	-	9
EUR	150	345	(1,243)	-	(748)
GBP	5	20	(16)	-	9
SEK	7	28	(14)	-	21
Other	53	109	(57)	-	105
Total	**298**	**714**	**(2,410)**	**-**	**(1,398)**
31 December 2019					
DKK	(75)	237	(865)	-	(703)
USD	62	97	(163)	-	(4)
EUR	232	276	(1,183)	-	(675)
GBP	32	12	(33)	-	11
SEK	8	16	(13)	-	11
Other	57	74	(62)	-	69
Total	**316**	**712**	**(2,319)**	**-**	**(1,291)**

25 Financial risks and 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 2020					
Mortgage debt and bank loans	704	746	29	535	182
Trade payables	74	74	74	-	-
Other financial liabilities**	1,140	1,171	939	126	106
Financial liabilities	**1,918**	**1,991**	**1,042**	**661**	**288**
31 December 2019					
Mortgage debt and bank 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**

* Total cash flow includes interests.
** Other financial liabilities include lease liabilities of DKK 239 million (2019: DKK 265 million).

Notes to the consolidated financial statements

25 Financial risks and 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 2020					
Cash	298	Various		Floating	(1.40)-(0.05)
Interestbearing assets	**298**				
Mortgage debt	258	DKK	2035	Floating	0.2
Lease liabilities	239	Various	2021-2033	Fixed	2.0
Bank loans	446	EUR	2022	Fixed	1.8
Interestbearing liabilities	**943**				
31 December 2019					
Cash	316	Various		Floating	(0.91)-1.32
Interestbearing assets	**316**				
Mortgage debt	277	DKK	2035	Floating	1.2
Lease liabilities	265	Various	2020-2033	Fixed	2.0
Bank loans	448	EUR	2022	Fixed	1.8
Interestbearing liabilities	**990**				

An increase in the interest rate of 1 percentage point on mortgage debt and bank loans would decrease net profit and equity by approximately DKK 5 million (2019: 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 (2019: increase of DKK 3 million).

25 Financial risks and 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. For more information, see note 16.

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

25 Financial risks and financial instruments – continued

Categories of financial instruments

Amounts in DKKm		**2020**	2019
Financial assets			
Financial assets measured at amortised cost	**Impairment method**		
Receivables from group companies	12m ECL	20	116
Receivables	12m ECL	30	46
Trade receivables	Lifetime ECL (simplified approach)	544	407
Other receivables	12m ECL	96	133
Cash		298	316
Total		**988**	**1,018**
Financial liabilities			
Financial liabilities measured at amortised cost			
Mortgage debt		258	277
Bank loans		446	448
Lease liabilities		239	265
Trade payables		74	81
Other payables		880	760
Total		**1,897**	**1,831**

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

There are no financial derivatives used in 2020 or 2019.

26 Fees to the ALK Group's auditors

Amounts in DKKm	**2020**	2019
Fees to the auditors appointed at the annual general meeting*:		
Audit services	3	3
Other opinions	-	1
Tax advisory services	-	2
Other services	-	5
Total	**3**	**11**

* In 2020, PricewaterhouseCoopers was appointed as the Group auditor at the annual general meeting (2019: Deloitte).

The fee for non-audit services provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (Denmark) of DKK 0.4 million relates to tax advisory and other general financial accounting matters.

In 2019, the fee for non-audit services provided by Deloitte Statsautoriseret Revisionspartnerselskab (Denmark) amounted to DKK 6.7 million. This included 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 related to review of tax returns, review of other tax related matters, and other general financial accounting matters.

For information on ALK entities intended to be exempt from local audits of the 2020 accounts, see note 30.

Notes to the consolidated financial statements

27 Related parties

Related party exercising control
ALK-Abelló A/S is controlled by the Lundbeck Foundation (Lundbeckfond Invest A/S) domiciled in Copenhagen, Denmark, which holds 67.2% of the total number of votes in ALK Abelló A/S. The remaining shares are widely held. ALK-Abelló A/S is parent company, and ultimate parent for the ALK Group is the Lundbeck Foundation (Lundbeckfond Invest A/S, incorporated in Denmark).

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 121 million (2019: DKK 18 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 group companies to ALK-Abelló A/S relate to outstanding company tax of DKK 20 million (2019: DKK 116 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.

28 Events after the reporting period

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

29 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2021.

Notes to the consolidated financial statements

30 List of companies in the ALK Group

31 December 2020 (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. VAT Reg no. GB724461445 Reading Exemption for local audit of the 2020 accounts according to the requirements of the UK Companies Act is intended.	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 5,150

Netherlands

ALK-Abelló B.V. Btw-nr. NL005302766B01 Nieuwegein Exemption for local audit of the 2020 accounts under the ruling of the Article 2:403 of the Dutch Civil Code is intended.	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. Luther, 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 (Shanghai) Medical Technology 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 and bank 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, UK, 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	2020	2019
EBITDA reconciliation to net profit / (loss)		
Net profit / (loss) for the year	25	(50)
Tax	76	19
Financial income	(5)	(22)
Financial expenses	54	39
Depreciation, amortisation and impairment	245	255
EBITDA	**395**	**241**
Net asset value		
Equity	3,153	3,176
Net asset value	**3,153**	**3,176**
Invested capital reconciliation		
Intangible assets	624	682
Tangible assets	1,704	1,739
Inventories	1,093	1,056
Trade receivables	544	407
Receivables from group companies	20	116
Income tax receivables	24	9
Other receivables	96	133
Prepayments	265	211
Pensions and similar liabilities	(345)	(297)
Lease liabilities (non-current)	(207)	(234)
Deferred tax liabilities	-	(4)
Income taxes (non-current)	(143)	(143)
Lease liabilities (current)	(32)	(31)
Trade payables	(74)	(81)
Income taxes (current)	(21)	(20)
Other provisions (current)	(3)	(23)
Other payables	(880)	(760)
Deferred income	(1)	(1)
Invested capital	**2,664**	**2,759**

Contents of the parent company financial statements

Parent company financial statements

Notes

Income statement

Amounts in DKKm	Note	2020	2019
Revenue	2	2,015	856
Cost of sales	3,4	1,011	747
Gross profit		**1,004**	**109**
Research and development expenses	3,4	508	458
Sales and marketing expenses	3	195	176
Administrative expenses	3,18	101	117
Other operating items, net		(2)	-
Operating profit/(loss) (EBIT)		**198**	**(642)**
Income from investments in subsidiaries	10	831	773
Financial income	5	14	80
Financial expenses	5	49	33
Profit/(loss) before tax (EBT)		**994**	**178**
Tax on profit/(loss)	6	105	(129)
Net profit/(loss)	19	**889**	**307**

Balance sheet

Amounts in DKKm	Note	31 Dec. 2020	31 Dec. 2019
Assets			
Non-current assets			
Intangible assets			
Intangible assets	7	119	137
		119	**137**
Tangible assets			
Land and buildings	8	324	346
Plant and machinery	8	263	158
Other fixtures and equipment	8	35	22
Property, plant and equipment in progress	8	151	186
		773	**712**
Other non-current assets			
Investments in subsidiaries	10	1,062	1,058
Receivables from group companies		998	731
Receivables		27	43
Deferred tax assets	9	326	356
Income tax receivables		109	133
		2,522	**2,321**
Total non-current assets		**3,414**	**3,170**
Current assets			
Inventories	11	361	418
Trade receivables		80	5
Receivables from group companies		770	419
Other receivables		71	113
Prepayments		233	180
		1,515	**1,135**
Cash		162	188
Total cash		**162**	**188**
Total current assets		**1,677**	**1,323**
Total assets		**5,091**	**4,493**

Amounts in DKKm	Note	31 Dec. 2020	31 Dec. 2019
Equity and liabilities			
Equity			
Share capital		111	111
Retained earnings		2,771	1,822
Capitalised development costs		4	5
Total equity		**2,886**	**1,938**
Liabilities			
Mortgage debt	12	240	259
Bank loans	12	446	448
Pensions and similar liabilities	13	57	19
Lease liabilities	14	121	129
Tax payables to group companies	15	111	109
Non-current liabilities		**975**	**964**
Mortgage debt	12	18	18
Trade payables		31	21
Payables to group companies		841	1,225
Lease liabilities	14	8	9
Other payables		332	318
Current liabilities		**1,230**	**1,591**
Total liabilities		**2,205**	**2,555**
Total equity and liabilities		**5,091**	**4,493**

Statement of changes in equity

Amounts in DKKm	Share capital	Retained earnings	Reserve for capitalised development costs	Proposed dividend	Total equity
2020					
Equity at 1 January	111	1,822	5	-	1,938
Appropriated from net profit	-	889	-	-	889
Share-based payments	-	29	-	-	29
Share options settled	-	(24)	-	-	(24)
Sale of treasury shares	-	11	-	-	11
Transfer to/(from) legal reserves	-	1	(1)	-	-
Tax related to items recognised directly in equity	-	43	-	-	43
Other transactions	**-**	**949**	**(1)**	**-**	**948**
Equity at 31 December	**111**	**2,771**	**4**	**-**	**2,886**

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 2020 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.

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	**2020**	2019
Sale of goods	1,953	822
Royalties	58	34
Services	4	-
Total revenue	**2,015**	**856**
Europe	1,735	694
International markets	280	162
Total revenue	**2,015**	**856**

3 Staff costs

Amounts in DKKm	**2020**	2019
Wages and salaries	609	578
Pensions	57	53
Other social security costs, etc.	22	19
Share-based payments	20	26
Total	**708**	**676**
Staff costs are allocated as follows:		
Cost of sales	291	283
Research and development expenses	193	179
Sales and marketing expenses	76	77
Administrative expenses	104	104
Included in the cost of assets	44	33
Total	**708**	**676**
Remuneration to Board of Management and Board of Directors:		
See note 4 and 5 in the consolidated financial statements		
Employees		
Average number (FTE)	855	820
Number year end (FTE)	873	836

4 Special items

Special items include impairment of DKK 24 million (2019: DKK 262 million) of which DKK 22 million is related to intangible assets (2019: DKK 0) and DKK 2 million is related to tangible assets (2019: DKK 30 million). In 2020, investments in subsidiaries were not impaired (2019: DKK 232 million).

The impairment of intangible assets includes DKK 13 million related to impairment of acquired intellectual property rights and DKK 9 million related to impairment of software projects in progress. In the income statement, the impairment of intangible assets is recognised with DKK 19 million in research and development expenses and DKK 3 million as cost of sales.

The impairment of tangible assets of DKK 2 million is related to impairment of production equipment in progress. In the income statement, the impairment of tangible assets is recognised as cost of sales.

In 2019, impairment of investments in subsidiaries of DKK 232 million 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 was related 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 of tangible assets was recognised as cost of sales.

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	2020	2019
Interest on receivables from group companies	10	40
Other interest income	4	14
Currency gain, net	-	26
Total financial income	**14**	**80**
Other interest expenses*	29	33
Currency loss, net	20	-
Total financial expenses	**49**	**33**

* In 2020, other interest expenses include net interest related to uncertain tax positions of DKK 7 million (2019: DKK 11 million was included in other interest income) and DKK 3 million related to lease interest expenses (2019: DKK 3 million).

6 Tax on profit/(loss) for the year

Amounts in DKKm	2020	2019
Current income tax	28	(114)
Adjustment of deferred tax	79	(18)
Prior year adjustments, income tax	(2)	4
Prior year adjustments, deferred tax	-	(1)
Total	**105**	**(129)**
Profit/(loss) before tax	994	178
Income tax, tax rate of 22%	219	39
Non-taxable income	(199)	(179)
Non-deductible expenses	9	6
Prior year adjustments, income tax	(2)	4
Prior year adjustments, deferred tax	-	(1)
Other taxes and adjustments	78	3
Change in valuation of net tax asset	-	(1)
Tax on profit/(loss) for the year	**105**	**(129)**

7 Intangible assets

Amounts in DKKm	Goodwill	Patents, trademarks and rights	Development cost*	Software	Assets in progress	2020	2019
Cost beginning of year	867	82	14	278	26	1,267	1,275
Additions	-	-	-	1	24	25	20
Disposals	-	(13)	-	-	(9)	(22)	(28)
Transfer to/from other groups	-	-	-	1	(1)	-	-
Cost year end	**867**	**69**	**14**	**280**	**40**	**1,270**	**1,267**
Amortisation and impairment beginning of year	867	67	6	190	-	1,130	1,137
Amortisation for the year	-	-	1	20	-	21	20
Amortisation on disposals	-	(13)	-	-	(9)	(22)	(27)
Impairment for the year	-	13	-	-	9	22	-
Amortisation and impairment year end	**867**	**67**	**7**	**210**	**-**	**1,151**	**1,130**
Carrying amount year end	**-**	**2**	**7**	**70**	**40**	**119**	**137**

* The capitalised development cost relates to development of medical device products where the individual minor development projects are running for short-term periods and are subject to limited risk. The development projects are generating ecomomic benefits in the form of sale of goods. At 31 December 2020, the capitalised development cost relates to the historical development of the adrenaline auto-injector Jext® for the European market.

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	**2020**	2019
Cost beginning of year	610	417	28	271	1,326	1,361
Additions	1	8	8	105	122	223
Disposals	-	(24)	(5)	(4)	(33)	(258)
Transfer to/from other groups	-	125	11	(136)	-	-
Cost year end	**611**	**526**	**42**	**236**	**1,415**	**1,326**
Depreciation and impairment beginning of year	264	259	6	85	614	680
Depreciation for the year	23	28	6	-	57	63
Depreciation of disposals	-	(24)	(5)	(2)	(31)	(159)
Impairment for the year	-	-	-	2	2	30
Depreciation and impairment year end	**287**	**263**	**7**	**85**	**642**	**614**
Carrying amount year end	**324**	**263**	**35**	**151**	**773**	**712**
of which assets held under leases*	127	-	-	-	127	137
Value of land and buildings subject to mortgages					197	209

* 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
2020						
Carrying amount beginning of year	16	(59)	17	31	351	356
Adjustment of receivables from group companies	-	-	-	-	6	6
Recognised in the income statement, net	(19)	(6)	8	(1)	(61)	(79)
Recognised in equity, net (share-based payments)	-	-	35	-	8	43
Carrying amount year end	**(3)**	**(65)**	**60**	**30**	**304**	**326**
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 group companies	-	-	-	-	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**

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 utilised against future taxable income within a foreseeable future (5 years). This includes an assessment of the possibilities to utilise 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	2020	2019
Cost beginning of year	1,466	905
Capital contribution in subsidiaries during the year	4	561
Cost year end	**1,470**	**1,466**
Write-down beginning of year	408	176
Write-down during the year, cf. note 4	-	232
Write-down year end	**408**	**408**
Carrying amount year end	**1,062**	**1,058**

In the income statement, income from investments in subsidiaries is dividends, which amounts to DKK 831 million (2019: DKK 1,005 million) less write-down of investments in subsidiaries which amounts to DKK 0 (2019: DKK 232 million).

For an overview of all subsidiaries see note 30 in the consolidated financial statements.

11 Inventories

Amounts in DKKm	2020	2019
Raw materials	75	87
Work in progress	255	307
Manufactured goods and goods for resale	31	24
Total	**361**	**418**
Amount of write-down of inventories during the year	4	3
Amount of reversal of write-down of inventories during the year	2	8

12 Mortgage debt and bank loans

Amounts in DKKm	2020	2019
Debt to mortgage credit institutions secured by real property		
Mortgage debt is due as follows:		
Within 1 year	18	18
From 1-5 years	72	71
After 5 years	168	188
Total	**258**	**277**
Bank loans		
Bank loans are due as follows:		
Within 1 year	-	-
From 1-5 years	446	448
After 5 years	-	-
Total	**446**	**448**

13 Pensions and similar liabilities

Amounts in DKKm	2020	2019
Pensions and similar liabilities expire as follows:*		
Within 1 year	1	–
From 1-5 years	2	1
After 5 years	55	18
Total	**58**	**19**

* Pensions and similiar liabilities relate to the provision for transition period for the Danish Holiday Act.

14 Lease liabilities

Amounts in DKKm	2020	2019
Lease liabilities expire as follows:		
Within 1 year	8	9
From 1-5 years	35	34
After 5 years	86	95
Total	**129**	**138**

Notes to the parent company financial statements

15 Tax payables to group companies

Non-current tax payables to group companies of DKK 111 million (2019: DKK 109 million) is expected to expire after 1 to 5 years.

16 Contingent liabilities and commitments

In December 2020, ALK-Abelló A/S issued a hold-harmless letter to ALK-Abelló Arzneimittel GmbH regarding costs under ongoing tax audits in Germany (unlimited guarantee). The letter replaces the letter issued in April 2019.

In January 2021, ALK-Abelló A/S issued a letter of financial support to ALK e-com A/S. The policy continues for a period of at least 12 months from the date of approval of the 31 December 2020 financial statements.

Provisions recognised 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 23 in the consolidated financial statements.

17 Related parties

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

ALK-Abelló A/S has had transactions with susidiaries during 2020. All subsidiaries are owned 100%. The transactions are eliminated in the consolidated financial statements.

Transactions with the majority shareholder are disclosed in note 27 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.

18 Fees to ALK-Abelló A/S' auditors

Amounts in DKKm	**2020**	2019
Fees to the auditors appointed at the annual general meeting*:		
Audit services	2	2
Tax advisory services	-	1
Other services	-	5
Total	**2**	**8**

* In 2020, PricewaterhouseCoopers was appointed as the Group auditor at the annual general meeting (2019: Deloitte).

In 2019, other services included 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 was related to various deliveries including compliance and advisory services.

19 Proposed appropriation of net profit/(loss)

Amounts in DKKm	**2020**	2019
Proposed dividend	-	-
Retained earnings	889	307
Total	**889**	**307**

20 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	2020	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Income statement					
Revenue	3,491	991	772	772	956
Cost of sales	1,463	412	344	336	371
Research and development expenses	515	178	121	103	113
Sales and marketing expenses	1,125	338	252	254	281
Administrative expenses	237	72	48	63	54
Other operating items, net	(1)	-	(1)	-	-
Operating profit/(loss) (EBIT)	150	(9)	6	16	137
Net financial items	(49)	(5)	(19)	(10)	(15)
Profit/(loss) before tax (EBT)	101	(14)	(13)	6	122
Net profit/(loss)	25	(31)	(20)	(10)	86
EBITDA	395	64	58	75	198
Average number of employees (FTE)	2,419	2,433	2,419	2,418	2,404

Amounts in DKKm	2020	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Revenue (Organic growth in revenue in local currency %)					
Europe	**2,550 (8)**	**734 (17)**	**556 (6)**	**540 (-2)**	**720 (11)**
– SCIT/SLIT-drops	1,320 (-9)	391 (-2)	280 (-18)	258 (-15)	391 (-3)
– SLIT-tablets	1,019 (40)	301 (54)	211 (56)	236 (22)	271 (33)
– Other products and services	211 (18)	42 (18)	65 (35)	46 (-11)	58 (36)
North America	**573 (-10)**	**155 (-2)**	**138 (-14)**	**130 (-19)**	**150 (-4)**
– SCIT/SLIT-drops	275 (-5)	75 (-1)	68 (-3)	58 (-22)	74 (7)
– SLIT-tablets	85 (4)	22 (37)	17 (-19)	20 (-16)	26 (22)
– Other products and services	213 (-19)	58 (-13)	53 (-24)	52 (-16)	50 (-24)
International markets	**368 (58)**	**102 (46)**	**78 (110)**	**102 (56)**	**86 (43)**
– SCIT/SLIT-drops	78 (41)	11 (-17)	19 (525)	26 (53)	22 (1)
– SLIT-tablets	266 (74)	86 (65)	53 (90)	68 (64)	59 (87)
– Other products and services	24 (-2)	5 (23)	6 (-1)	8 (12)	5 (-29)
Total revenue	**3,491 (8)**	**991 (16)**	**772 (7)**	**772 (0)**	**956 (10)**
– SCIT/SLIT-drops	1,673 (-7)	477 (-2)	367 (-11)	342 (-14)	487 (-2)
– SLIT-tablets	1,370 (42)	409 (55)	281 (52)	324 (25)	356 (38)
– Other products and services	448 (-4)	105 (-1)	124 (0)	106 (-12)	113 (-2)

Amounts in DKKm	2020	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Balance sheet					
Total assets	5,563	5,563	5,573	5,683	5,639
Invested capital	2,664	2,664	2,827	2,748	2,814
Equity	3,153	3,153	3,203	3,243	3,279
Cash flow and investments					
Depreciation, amortisation and impairment	245	73	52	59	61
Cash flow from operating activities	301	195	(48)	84	70
Cash flow from investing activities	(245)	(72)	(46)	(78)	(49)
– of which investment in intangible assets	(26)	(15)	(7)	-	(4)
– of which investment in tangible assets	(196)	(59)	(39)	(53)	(45)
Free cash flow	56	123	(94)	6	21
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	2,500	2,500	2,098	1,771	1,542
Net asset value per share – DKK	283	283	287	291	294
Key figures					
Gross margin – %	58	58	55	56	61
EBITDA margin – %	11	6	8	10	21
Earnings/(loss) per share (EPS) – DKK	2.3	(2.9)	(1.8)	(0.9)	7.9
Earnings/(loss) per share diluted (DEPS) – DKK	2.3	(2.9)	(1.8)	(0.9)	7.8
Cash flow per share (CFPS) – DKK	27.6	17.9	(4.4)	7.7	6.4
Share price/Net asset value	8.8	8.8	7.3	6.1	5.2

* Management's review comprises this page as well as pages 1-46 and Financial highlights and key ratios for the ALK Group on page 13.

Definitions: see page 86.

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