Annual report 2017

Putting ALK on the right growth trajectory

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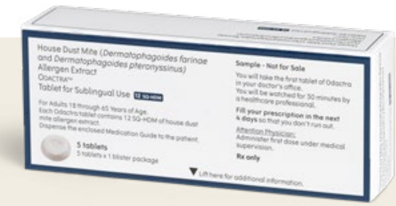


Succeed in North America
Succeeding in North America is key to ALK's future value creation

Cover image
Everything ALK does is geared towards providing solutions that make life with allergy surprisingly simple

ALK at a glance

Today, ALK is the global leader in the highly specialised field of allergy immunotherapy (AIT), a treatment option for the most severely affected allergy sufferers. Our strategy is to transform ALK into a global company with a much broader base across allergy and allergic asthma. In combination with our core AIT products, we are establishing a wide range of solutions for people with allergy and doctors who specialise in allergy. Headquartered in Hørsholm, Denmark, ALK is listed on Nasdaq Copenhagen.

How we create value

1 The market

Mega trends, external drivers

>500 million
people are affected by allergic rhinitis

~10%
are not well treated, meaning
~50 million
people could be helped with AIT treatment

<5 million
people are treated with AIT today, or
<1%
out of a total of >500 million

>DKK 120bn
in allergy-related product sales globally

2 ALK

Operations/resources

3
US FDA-approved products. Only ALK has a broadly and clinically tested and approved portfolio of AIT products

~1.5 million
patients treated with ALK products

2,300
employees

32
countries either directly or via partnerships

7
manufacturing sites producing ~100 million doses of AIT

DKK 2.9 billion
in revenue

3 Strategy

Strategic priorities

Succeed
in North America with own direct sales organisation

Complete
the clinical development of the tablet portfolio for all relevant ages and indications

Build
patient engagement and adjacencies to reach remaining 99% of people with allergy

Optimise and reallocate
resources to focus on the new strategy and achieve efficiencies

4 Ambition

Value creation

Deliver sustainable
≥10% p.a. revenue growth

Raise earnings margins
to specialty pharma levels as quickly as possible

Letter from the Chairman

2017: Building strong foundations

Building the ALK of tomorrow requires strong foundations today, which is why it was so important that we maintained our clear market leadership in Europe during 2017.

Thanks to strategic investment choices and additional sales and marketing investments in key markets, we successfully consolidated market leadership across Europe, including France, despite some revenue flowing back to our major competitor and our own production issues causing a significant loss of sales.

2017 European sales were organically 18% ahead of where they were two years ago and the scope was there for an even better performance, had it not been for the constraints to production capacity. The SLIT-tablet franchise continues to advance, and its core product, ACARIZAX®, which is a year-round treatment, is generating a positive 'halo effect' that is also benefiting our seasonal treatments such as GRAZAX®. This increased adoption of the tablets reinforces ALK's position as prescriptions shift towards registered, evidence-based products in many key markets, such as Germany.

2017 highlights also included the long awaited approvals and launches for ACARIZAX®/ODACTRA™ in North America, which were accelerated by six months. Our new strategy, announced in late 2017, makes succeeding with the tablets in the USA a top priority and as part of the groundwork for this, in 2017 we invested around DKK 200 million in the launches of ACARIZAX®/ODACTRA™ and in building a new organisation to run the tablet franchise. Market access is progressing well. So far, the response from payers, key opinion leaders and relevant medical professionals has been encouraging and we have taken steps to improve patients' access and adherence to tablet treatment. The next step is to show how our tablets can expand the number of patients who benefit from AIT, thereby reinforcing and revitalising the role of allergy specialists.

Although there were challenges, we achieved most of the KPIs for 2017, which were outlined in last year's annual report. Sales grew outside Europe and both ALK and its partners reported strong clinical progress – just one example being ALK's pivotal clinical trial with the tree-tablet, which showed an effect that was among the most significant ever seen in ALK field studies and has established a strong basis for the forthcoming regulatory filing in Europe.

However, sales of legacy products were affected as the capacity constraints and issues that followed our quality upgrades continued to limit sales. We still have work to do in Product Supply and we need to be uncompromising in our quest for quality and our timely execution of upgrades.

Despite these setbacks, ALK begins 2018 with renewed intent and with a clear task ahead: to capitalise on our strong foundations and unlock the future potential of our products and market opportunities.

Steen Riisgaard
Chairman

Letter from the CEO

2018-20: Putting ALK on the right growth trajectory

4 December 2017 became a defining moment in ALK's history, when we launched our new, transformational growth strategy.

For the first time, we announced an intention to reach beyond our traditional heartland of AIT in order to reach the remaining 99% of people with allergy that we do not address today by reaching out to patients and prescribers with digital engagement programmes, e-commerce, and adjacent products and services – in the process, connecting with and helping many more people with allergy. We are also investing heavily in establishing a direct commercial presence for the FDA-approved SLIT-tablets in North America as well as completing and commercialising the tablet portfolio for all relevant ages, in all relevant markets, including for new age groups and asthma.

We also announced a series of tough decisions to reduce our legacy portfolio and refocus our resources, which will undoubtedly be painful in the short-term, but will bring benefits over the long-term.

The extent of our actions and ambitions, and the investments required to fix and grow ALK, took some by surprise. However, we see it as the duty of both the Board of Directors and Management to secure the long-term growth of the company and to address the fact that ALK – despite all of its strengths – treats fewer than 1% of potential patients in the allergy and asthma market. The overall intention is therefore to secure a stronger foundation and put ALK on the right growth trajectory.

The paradigm for ALK has changed, and when we succeed with our new strategy in transforming the company, we will be well placed with an ALK capable of delivering sustainable, double-digit growth and, in the long-term, raising margins to specialty pharma levels.

The tablet range, our manufacturing set-up, our clinical know-how and our growths plans, as well as our investments to future-proof trusted legacy products, all represent a new era for ALK. We have spent many years putting each of these vital components in place, and now it is time to harvest the rewards.

We are hitting the ground running, and we have already initiated a transformation that will last three years. Financially, 2018 promises to be the toughest year, with pressure on the top-line and our overall financial resources due to the remedial actions outlined above. However, we expect double-digit revenue growth from 2019 onwards with numerous potential upsides. All in all, ALK has an exciting future ahead, and we hope you will want to be a part of it.

Carsten Hellmann
President & CEO

> "2017 has been a year where we both fought and invested to maintain our gains following the market disruptions of 2015-16 and invested heavily to stabilise our production set-up. Also, we built up a launch-capable organisation in North America and we developed, financed and began to implement a future-oriented growth strategy to capture the true potential of ALK.

Carsten Hellmann, President & CEO

Progress on key business priorities for 2017

Europe

Consolidate market share gains in France and other markets	✓
Continue capacity and quality upgrades for the legacy products, restore full production capacity and inventories to meet global demand	✗
Expand the reach of ACARIZAX® in existing and new markets	✓
Initiate paediatric development of ACARIZAX®	✓
Complete Phase III development of the tree SLIT-tablet	✓
Lead transformation of the market towards registered, documented products	✓

North America

Build organisation to support sales of SLIT-tablets	✓
Secure continuity in sales of SLIT-tablets	✓
Prepare for successful launches of ACARIZAX® / ODACTRA™	✓
Grow the value of existing allergen extracts (SCIT) business	✗
Continue capacity expansion for ACARIZAX® / ODACTRA™ raw materials	✓

International markets

Grow business in selected focus markets	✓
Launch SLIT-tablets in new focus markets	✓
Prepare for new market entries	✓

Financial guidance

Revenue: Approximately DKK 2.9 billion	✓
EBITDA: DKK 225-250 million	✓

Key business priorities for 2018

Europe

- Grow tablet sales in existing and new markets with ACARIZAX® as the prime driver
- Restore production robustness, capacity and adequate inventory levels for SCIT and SLIT-drops
- Phase out selected legacy products in a controlled manner
- Submit registration application for the tree SLIT-tablet
- Establish a scalable digital platform for patient engagement, including an e-commerce solution to launch a range of allergy-relevant consumer products

North America

- Initiate ~5,000 patients on ODACTRA™ treatment in the USA
- Develop viable and scalable business models for the tablet portfolio
- Grow value of allergen extracts (SCIT), diagnostics and other products
- Ensure enrolment of patients in paediatric asthma trial for ACARIZAX® / ODACTRA™

International markets

- Grow business in selected focus markets
- Launch SLIT-tablets in new markets

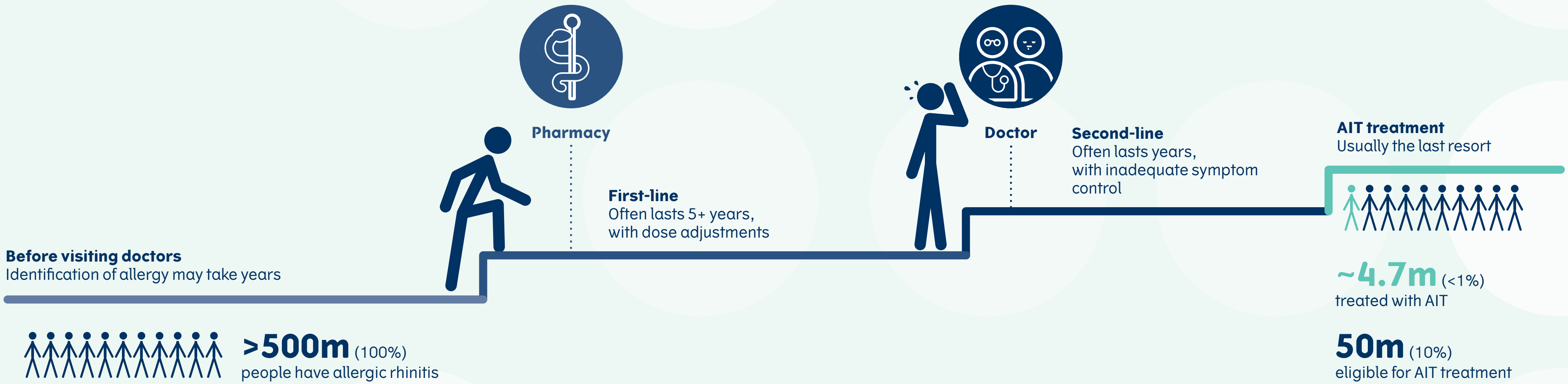
Financial guidance

See page 9

The starting point for the ALK strategy:

The allergy patient's journey

Allergy patients often suffer for a decade or more before a minority eventually find their way to AIT. Market research shows that there is currently a clear trend towards self-medication for allergies, using over-the-counter remedies. Meanwhile, the internet has become the principal source of disease information for people with allergy, around 60% of whom rarely see a doctor. ALK's strategy is about taking ownership of the entire patient journey and becoming more relevant to the patient.



More than 80% of global respiratory allergies are linked to five major allergens

House dust mites (HDM)
House dust mites are the most common cause of allergy in the world. The condition appears early in life, is present all year round and patients face an elevated risk of developing asthma and other allergies.

Grass
Respiratory allergies affect around a quarter of the population in Europe, with approximately half of those affected by grass pollen allergy. In most regions, grass usually pollinates in late spring.

Ragweed
The seasonal ragweed allergy is almost as widespread in North America as grass pollen allergy. Ragweed pollen is one of the most frequent causes of respiratory allergy on the North American continent, where about 30 million people suffer from this type of pollen allergy.

Tree
In Northern and Central Europe, the USA and Canada, respiratory allergies are commonly caused by allergens from the birch family group of trees, which also includes alder, beech, hazel and oak.

Japanese cedar
Around a quarter of Japan's population suffer from respiratory allergies, with around 70% of these having a specific allergy to Japanese cedar pollen. Japanese cedar allergy can affect people of all ages but recent research shows that the typical age of onset is falling.

Key events 2017

Jan

Carsten Hellmann joins ALK as new President & CEO

Feb

ALK submits registration application for ragweed SLIT-tablet in Europe

ALK's ACARIZAX® data results in a significant change to the GINA asthma management strategy and sublingual allergy immunotherapy (SLIT) is recommended as a treatment option in patients with house dust mite allergic asthma

Mar

ALK announces FDA approval for its house dust mite SLIT-tablet in the USA, where it will be branded ODACTRA™

ALK's partner, Torii, submits paediatric registration application for the house dust mite SLIT-tablet in Japan, where it is sold as MITICURE™

Apr

ACARIZAX® approved in Europe for use in adolescent patients with house dust mite-induced allergic rhinitis

May

ACARIZAX® approved in Canada

Jun

Jul

Publication: Five-year *GRAZAX® Asthma Prevention* (GAP) trial reveals benefits of early treatment intervention in children

Aug

ALK announced intention to accelerate launches of ACARIZAX® / ODACTRA™ in Canada and the USA

FDA transfers US product licences for all SLIT-tablets to ALK

Sep

ALK's partner, Torii, gains approval for the Japanese cedar SLIT-tablet in Japan

Successful Phase III trial for ALK's tree SLIT-tablet

ALK acts on French injunction by accelerating investments in the quality system at its French manufacturing facility

Oct

Nov

ALK settles pricing and reimbursement for ACARIZAX® in France and Spain

Launches of ACARIZAX® in the Netherlands and Canada

Søren Niegel has Product Supply added to his responsibility for Commercial Operations

Søren Jelert announced to succeed Flemming Pedersen as Chief Financial Officer

Dec

ALK launches ambitious, transformational growth strategy

ALK completes equity offering, raising close to DKK 700 million in support of new strategy

Ragweed SLIT-tablet approved in nine EU countries and Russia

2018 outlook

The full-year outlook is in line with the preliminary outlook presented on 4 December 2017. Group revenue is expected at below 2017 levels while earnings (EBITDA) and free cash flow will be impacted by business investments associated with the transformation of ALK as part of its new growth strategy.

Revenue
Total revenue from ALK's existing business is expected at around DKK 2.7 billion.

European revenue is expected to decline due to three factors: planned product discontinuations, continued impact of constraints to SCIT and SLIT-drops production following the decision to reduce output while essential upgrades are completed and inventory levels are replenished, as well as expected pressure on pricing of legacy products in Southern Europe where ALK sees a risk that market access conditions could be further challenged during 2018 with respect to both price and reimbursement. The revenue outlook assumes that the combined squeeze on revenue from these factors in 2018 totals DKK 250-300 million, of which approximately DKK 100 million relates to pressure on price and reimbursement. This squeeze will only be partly offset by strong, double-digit growth in tablet sales and single-digit growth in sales of other products, including the adrenaline auto-injector Jext®. Hence, strong fundamental growth is being offset short term by the factors described above.

Revenue in North America is expected to grow, driven by allergen extracts and SLIT-tablets, among others, with current projections planning approximately 5,000 new patients to be initiated on ODACTRA™ in the USA during 2018. Revenue in International markets is also projected to grow.

The outlook is based on current exchange rates, causing an expected decline in reported revenue of approximately DKK 50-75 million versus 2017.

Earnings (EBITDA) are anticipated at around DKK -50 million. Gross margins are expected to decline slightly due to lower revenue, changes in the product mix, increased costs of compliance and building robustness in product supply, as well as expected price/reimbursement pressure on selected products, most notably in Southern Europe. Capacity costs are expected to increase, driven by sales and marketing expenses related to the emerging tablets business in North America and ACARIZAX® launches in other markets. R&D and administrative expenses are expected to be at the same level as in 2017. Across all functions, ALK will continue its efforts to improve operational efficiencies and capture cost savings.

EBITDA is not expected to be affected by current exchange rates.

Free cash flow is expected to be negative at approximately DKK 600 million due to subdued earnings following the investment in North America, working capital requirements – including inventory build-up and CAPEX investments in the continued expansion of tablet capacity – to accommodate the house dust mite and tree tablets, as well as production upgrades for SCIT and SLIT-drops, and preparing Jext® for a US launch.

The outlook does not include any revenue from acquisitions, new partnerships or adjacent products and services, nor does it include any sizeable payments related to future in-licensing or M&A activity.

Forward-looking statements

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

2018 expectations

Revenue, approx.

DKK 2.7 billion

2017: DKK 2.9 billion

due to strong growth in tablet sales offset by product eliminations, supply constraints and price/reimbursement pressure
Negative currency effect of DKK 50-75 million, based on current exchange rates

EBITDA, approx.

DKK -50 million

2017: DKK 253 million

due to lower revenue, declining gross margins, full-year effect of build-up in North America, ACARIZAX®/ODACTRA™ launches
Neutral currency effect based on current exchange rates

Free cash flow, approx.

DKK -600 million

2017: DKK -745 million

due to subdued earnings, working capital requirements, including tablet inventories and CAPEX investments

2017 performance

Financial highlights and key ratios for the ALK Group*

Amounts in DKKm/EURm**	**DKK 2017**	DKK 2016	DKK 2015	DKK 2014	DKK 2013	**EUR 2017**	EUR 2016
Income statement							
Revenue	2,910	3,005	2,569	2,433	2,244	391	404
Operating profit before depreciation (EBITDA)	253	642	451	404	236	34	86
Operating profit/(loss) (EBIT)	(80)	479	292	264	109	(11)	64
Net financial items	(42)	8	108	36	(5)	(6)	1
Profit/(loss) before tax (EBT)	(122)	487	400	300	104	(16)	66
Net profit/(loss)	(158)	270	344	181	61	(21)	36
Average number of employees (FTE)	2,213	2,010	1,854	1,809	1,804	2,213	2,010
Balance sheet							
Total assets	4,958	4,799	4,252	3,419	3,268	666	646
Invested capital	2,864	2,353	2,434	2,214	2,104	385	317
Equity	3,290	2,875	2,697	2,354	2,249	442	387
Cash flow and investments							
Depreciation, amortisation and impairment	333	163	159	140	127	45	22
Cash flow from operating activities	(387)	405	183	320	146	(52)	54
Cash flow from investing activities	(358)	(204)	(165)	(219)	(231)	(48)	(27)
– of which investment in tangible and intangible assets	(267)	(225)	(199)	(202)	(253)	(36)	(30)
– of which acquisitions of companies and operations	(94)	-	(12)	(24)	-	(13)	-
Free cash flow	(745)	201	18	101	(85)	(100)	27

Amounts in DKKm/EURm**	**DKK 2017**	DKK 2016	DKK 2015	DKK 2014	DKK 2013	**EUR 2017**	EUR 2016
Information on shares							
Proposed dividend	-	51	51	51	51	-	6.9
Share capital	111	101	101	101	101	14.9	13.6
Shares in thousands of DKK 10 each	11,141	10,128	10,128	10,128	10,128	11,141	10,128
Share price, at year end - DKK/EUR	740	920	876	651	614	99.4	123.8
Net asset value per share - DKK/EUR	295	284	266	232	222	39.7	38.2
Key figures							
Gross margin – %	56.4	66.9	67.5	69.7	68.9	56.4	66.9
EBITDA margin – %	8.7	21.4	17.6	16.6	10.5	8.7	21.4
Return on equity (ROE) – %	(5.1)	9.7	13.6	7.9	2.7	(5.1)	9.7
ROIC incl. goodwill – %	(3.1)	20.0	12.8	12.2	5.3	(3.1)	20.0
Pay-out ratio – %	-	18.9	14.8	28.2	83.6	-	18.9
Earnings per share (EPS) – DKK/EUR	(15.9)	27.5	35.5	18.7	6.3	(2.1)	3.7
Earnings per share (DEPS), diluted – DKK/EUR	(15.9)	27.2	35.0	18.3	6.2	(2.1)	3.7
Cash flow per share (CFPS) – DKK/EUR	(39.0)	41.3	18.9	33.1	15.1	(5.2)	5.5
Price earnings ratio (PE)	(46.5)	33.4	24.8	34.7	97.3	(46.5)	33.4
Share price/Net asset value	2.5	3.2	3.3	2.8	2.8	2.5	3.2
Revenue growth – %							
Organic growth	(6)	19	2	8	(4)	(6)	19
Exchange rate differences	(1)	(2)	4	1	-	(1)	(2)
Acquisitions	4	-	-	-	-	4	-
Total growth revenue	(3)	17	6	9	(4)	(3)	17

* Management's review comprises pages 1-35 as well as Financial highlights and key ratios for the ALK Group on page 81.

**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 2017 (EUR 100 = DKK 745).

For definitions and reconciliation of alternative performance measures, see page 70.

Revenue by geography

(Comparative figures for 2016 are shown in brackets. Growth rates are stated as organic growth in local currencies, unless otherwise indicated)

ALK's total revenue in 2017 of DKK 2,910 million was in line with the outlook. Revenue was down 2% in local currencies, while organic growth was -6% following the normalisation of European markets as a major competitor returned to the market. Q4 revenue grew by 4% in DKK, while organic growth in local currencies was 0.4% in Q4 (cf. the quarterly revenue breakdown on page 81).

Europe

Full-year revenue in Europe decreased by 9% to DKK 2,220 million (2,434) with the region accounting for 76% of ALK's total revenue (81). For context, 2016 revenue was significantly influenced by market disruptions which provided an extraordinary boost to ALK's 2016 sales in markets affected by competitor supply shortages.

Thanks to investments aimed at locking in as much of 2016's market share gains as possible, ALK retained its position as Europe's market leader. Double-digit growth was seen in Northern and Eastern Europe, while sales were stable in Central Europe. Conversely, ALK experienced a double-digit sales decline in Southern Europe.

For further context, revenue exceeded the pre-market disruption levels of 2015 organically by 18% overall, while revenue in France was almost 50% higher than in 2015.

Combined SCIT and SLIT-drops sales weakened by 13% versus 2016. Sales declined due to market normalisation in France, and due to the temporary reduction in production capacity, which is estimated to have lowered sales by approximately DKK 250 million in 2017.

ALK continues to see an overall market transition towards products that are registered and documented. As a result of this trend, the industry is likely to see further consolidation. Meanwhile, market conditions for evidence-based products continued to improve, particularly in Germany, where regional formulary policies now favour registered and documented products, such as SLIT-tablets.

SLIT-tablet sales grew by 6% and most markets in Northern and Central Europe, including Germany, showed double-digit growth, driven by the uptake of ACARIZAX®. Compared to 2015 pre-disruption levels, overall tablet sales were up by 72%.

Sales of other products grew by 13%, with the adrenaline auto-injector Jext® performing well largely due to improvements in the robustness of its supply chain.

Revenue in North America

Revenue in North America declined by 2% organically to DKK 606 million (512) while reported growth was 18%, including the contribution from acquisitions Allergy Laboratory of Oklahoma Inc., and Crystal Labs LLC (together: ALOK). In all, the North America region accounted for 21% (17) of total revenue.

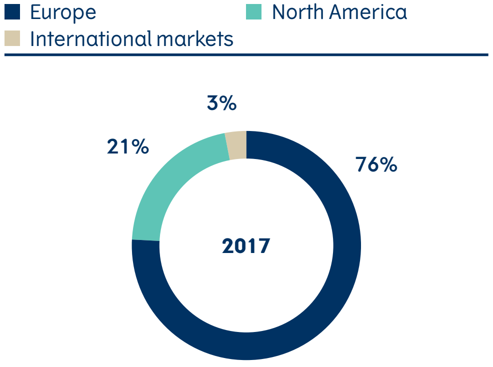
Tablet revenue in North America grew by 17% to DKK 72 million. High stock levels at wholesalers caused fluctuations to orders

Revenue in Europe

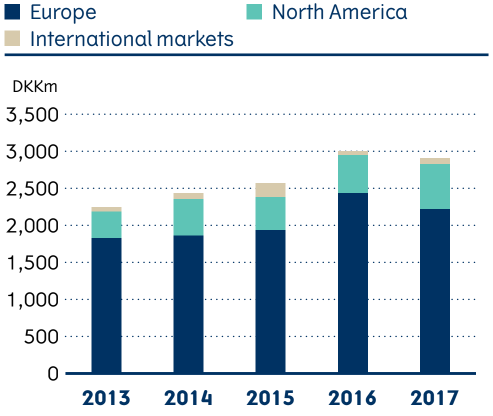
DKKm	2017	2016	2015*
SCIT/SLIT-drops	1,627	1,881	1,507
SLIT-tablets	430	406	253
Others	163	147	140
Revenue	**2,220**	**2,434**	**1,900**

* Excluding the veterinary business, divested in 2015

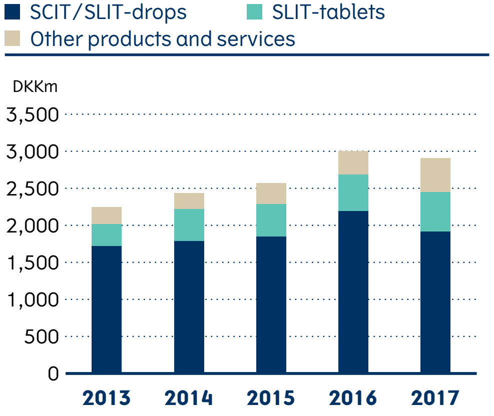
Revenue by geography



5-year total revenue by geography



5-year total revenue by product line



in each quarter, but growth was seen in Q4 when revenue included the first sales of ACARIZAX®/ODACTRA™.

Sales of bulk allergen extracts declined 11% to DKK 246 million. The decline was primarily due to temporary constraints in product supply affecting the Pharmalgen® range of venom AIT, however, sales regained momentum in Q4. Sales of diagnostics and other products to allergy specialists and clinics grew 4% organically to DKK 288 million, while reported growth of 71% was driven by the ALOK acquisitions which contributed slightly ahead of plan.

International markets

Revenue in International markets was DKK 84 million (59), a 48% increase over last year so that International markets accounted for 3% of total revenue (2).

Revenue more than doubled in China where ALK capitalised on a stronger local organisation and a new distribution set-up, despite the country's underdeveloped AIT infrastructure. Sales in Turkey/Middle East benefited from ALK's increased build-up in the region. Growth in tablet-related revenue was reported in Japan where Torii continued its successful roll-out of ACARIZAX®, which is sold as MITICURE™ in Japan.

Global revenue by product line: Reported revenue and growth rates

DKKm	Q4 2017 revenue	Q4 growth %	FY 2017 revenue	FY 2017 growth %	FY 2016 revenue	FY 2015 revenue
SCIT/SLIT-drops	501	-11%	1,917	-12%	2,190	1,845
SLIT-tablets	159	+59%	528	+8%	494**	439***
Other products and services	103*	+41%	465*	+49%	321	285
Revenue	**763**	**+4%**	**2,910***	**-2%**	**3,005**	**2,569**

* Includes revenue from the ALOK acquisition
** Includes DKK 38 million in milestone payments
*** Includes DKK 116 million in milestone payments

The global AIT market

ALK is one of only two global players in an industry typified by many smaller companies focused on few or single markets. ALK is estimated to have accounted for around 35% of global AIT sales in 2017.

Global AIT industry sales in 2017 are projected to have grown to around DKK 7.5 billion (~6.6). Growth came from the normalisation of supply to European markets and an increase in patient numbers in International markets, while sales were stable in North America. Around 4.7 million people are estimated to be receiving AIT treatment globally, while around 50 million people are considered to be eligible.

European AIT sales are estimated to have grown to DKK 5.5 billion (~5) as markets and demand normalised following major disruptions in 2015 and 2016. An estimated 1.4 million Europeans received AIT treatment, with Germany and France accounting for approximately two-thirds of the region's sales.

Total industry sales in **North America** of around DKK 1.2 billion (1.2) are estimated to represent around 5% of the total AIT-related sales that are billed to managed care companies. The most common treatment is a course of multi-allergen SCIT 'shots' which are prepared, primarily, by allergists using bulk allergen extracts. An estimated 3 million people are undergoing AIT treatment in North America (3).

AIT is still in its infancy in **International markets**, but patient numbers are growing and around 300,000 people are estimated to have been treated with AIT in 2017. The most significant markets include Japan, with one of the highest levels of allergic rhinitis world-wide, and China, which has major potential given the large number of people with house dust mite allergy, as well as Australia, Russia, South East Asia and Turkey/Middle East.

Financial review of 2017

(Comparative figures for 2016 are shown in brackets. Revenue growth rates are stated in local currencies, unless otherwise indicated. 2016 comparable figures have been restated so that special items recognised in 2016 are now included in the relevant line items, please refer to note 26 on page 68)

ALK's full-year financial results were in line with the company's most recent outlook, released on 4 December 2017.

Revenue decreased to DKK 2,910 million (3,005). Organic growth, excluding acquisitions and one-off milestone payments, was -5%. Currencies had a minor positive impact on reported growth.

Cost of sales increased 26% (organically 18% in local currencies) to DKK 1,268 million (1,008) and, as announced in connection with the company's strategy update in December, cost of sales included a Q4 impairment of DKK 116 million related to obsolete production equipment and discontinued development projects. Gross profit of DKK 1,642 million (1,997) yielded a gross margin of 56% (66), reflecting lower revenue, capacity expansion, activities to improve the robustness of product supply as well as a changed sales mix and impairments.

Capacity costs increased 13% (organically 18% in local currencies) to DKK 1,724 million (1,525). R&D expenses of DKK 426 million (385) included a Q4 impairment of DKK 36 million related to discontinued development projects. Administrative expenses were unchanged at DKK 231 million (230), while sales and marketing expenses increased by 17% (organically 21% in local currencies) to DKK 1,067 million (910). This reflected ALK's accelerated growth investments, predominantly for the build-up in the USA.

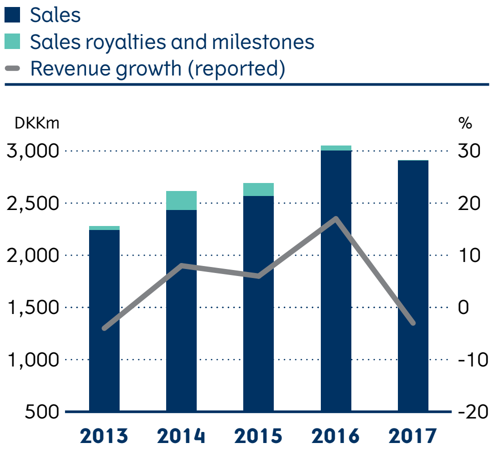
Reported EBITDA (operating profit before depreciation and amortisation) was DKK 253 million (642) and hence at the upper end of the company's latest financial guidance. There was no material impact on earnings due to exchange rates. Reported EBIT included one-off write-downs of DKK 152 million which were recognised in Q4.

Net financials were a loss of DKK 42 million (gain of 8) and tax on the profit totalled DKK 36 million (217). The unusual effective tax rate is a result of the current geographical distribution of income with positive income in relatively high-tax countries and losses in relatively low-tax countries.

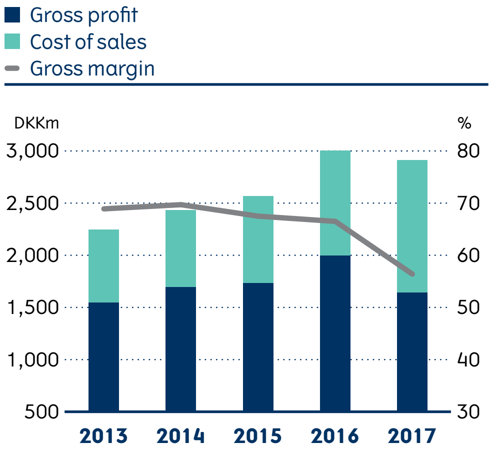
Net profit was DKK -158 million (270).

Cash flow from operating activities was an outflow of DKK 387 million (an inflow of 405). The change was primarily caused by lower earnings following ALK's growth investments as well as changes in working capital and higher paid taxes, partly related to the extraordinarily high profit in 2016.

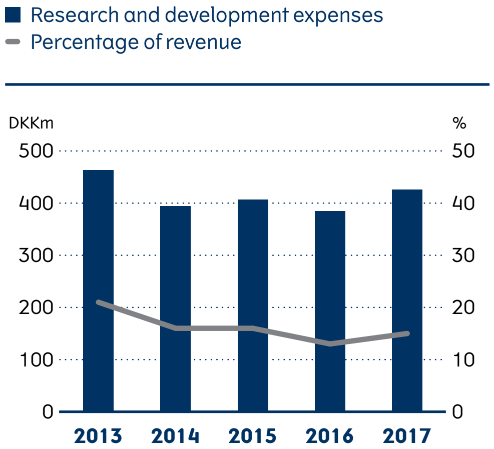
Total revenue



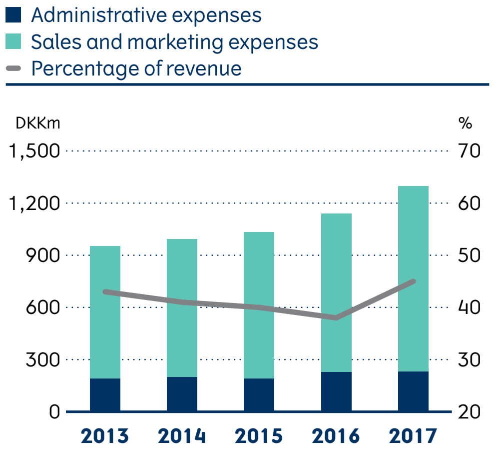
Gross profit



Research and development



Sales, marketing and administration



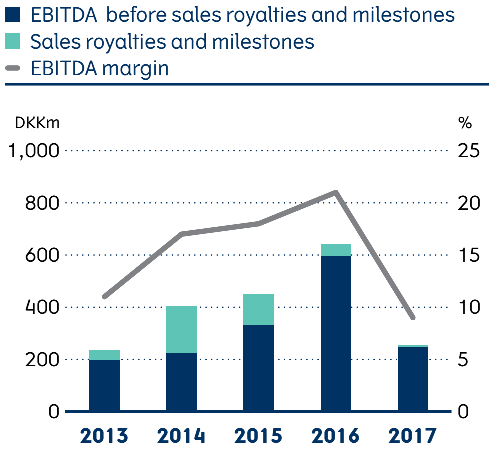
Cash flow from investment activities was an outflow of DKK 358 million (204) primarily relating to the build-up of capacity for SLIT-tablet production and instalments related to the ALOK acquisitions. Free cash flow was an outflow of DKK 745 million (an inflow of 201). Cash flow from financing was a net inflow of DKK 620 million (39), mainly reflecting the net proceeds of DKK 688 million from the equity offering in connection with the strategy announcement in December, and the dividend payment of DKK 5 per share, which was declared at the annual general meeting in March.

At the end of 2017, ALK held 285,806 of its **own shares** or 2.6% of the share capital versus 2.9% at the end of 2016.

At the end of 2017, **cash and marketable securities** totalled DKK 711 million, versus DKK 840 million at the end of 2016.

Equity totalled DKK 3,290 million (2,875) at the end of the period, and the equity ratio was 65% (60).

Reported EBITDA



ALK's partnerships

TORII

Partnership with Torii for Japan

The partnership agreement, established in 2011, grants Torii exclusive rights to develop, register and commercialise ALK's AIT products for allergic rhinitis and asthma in Japan. The agreement covers SLIT-tablets against house dust mite (branded MITICURE™ in Japan) and Japanese cedar pollen allergy (CEDARCURE™), as well as a house dust mite SCIT product and a house dust mite diagnostic product. ALK has received all potential upfront and development milestone payments from Torii totalling DKK 450 million (EUR 60 million). In addition, ALK is entitled to royalty payments, sales milestones on the products' net sales, as well as payments for product supply and R&D support. Torii incurs all costs of clinical development, registration, marketing and sales of the products. ALK is responsible for production and supply.

Abbott
A Promise for Life

Partnership with Abbott for Russia

The partnership with Abbott, established in 2014, covers the supply and marketing of ALK's SLIT-tablets in Russia. Abbott has exclusive rights to distribute and commercialise ALK's SLIT-tablet portfolio covering Russia's most common allergies: grass (GRAZAX®), ragweed, tree, and house dust mite (ACARIZAX®), adding the products to its own respiratory range. Abbott and ALK will share the revenue generated by the partnership. Abbott will purchase products from ALK at agreed prices and, in addition, pay royalties on net sales.

Partnership with Abbott for South-East Asia

In January 2016, the partnership with Abbott was expanded to cover seven South-East Asia markets: Hong Kong, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. In these markets, Abbott has exclusive rights to register and sell ACARIZAX®, which is a strong fit with Abbott's existing ENT and paediatrics portfolio. ALK and Abbott will share the revenue generated in the territories. ALK will be responsible for product supply to Abbott.

Seqirus
A CSL Company

Partnership with Seqirus for Australia and New Zealand

The partnership with Seqirus, established in 2015, grants Seqirus exclusive rights to promote and sell ACARIZAX® and GRAZAX® in Australia and New Zealand. ALK received an undisclosed milestone payment upon approval of ACARIZAX® in Australia in 2016. ALK is responsible for product supply and will sell products to Seqirus at an agreed price structure ensuring a split of final in-market revenue generated by Seqirus.

Strategy

New corporate strategy

ALK has adopted a new corporate strategy to redefine its position in the global allergy market and stimulate a new era of growth for the company. The strategy aims to transform ALK into a broader-based allergy company, by expanding its core AIT business and using its expertise to grow the tablets franchise in particular, and to introduce new, complementary products and services that reach even more people with allergy and asthma.

1.
Succeed in North America with own direct sales organisation

2.
Complete the clinical development of the tablet portfolio for all relevant ages and indications

3.
Build patient engagement and adjacencies to reach remaining 99% of people with allergy

4.
Optimise and reallocate resources to focus on the new strategy and achieve efficiencies

The starting point: AIT leadership – SLIT-tablets, SLIT-drops, SCIT and related products

Financial ambitions

The new strategy aims to transform ALK, over a maximum period of three years (2018-20), into a business capable of delivering sustainable, high revenue and earnings growth.

The new strategy aims to change ALK from a niche AIT player – currently capturing less than 2% of the spend in the global allergy and allergic asthma market and addressing less than 1% of the total number of people affected by allergic rhinitis – into a company with a wider presence across the entire disease area. By doing so, ALK expects to fundamentally change its revenue and earnings profile.

Forecast for the transformation period
During the transformation period, 2018 **revenue** is expected to be below that of 2017 (cf. the outlook on page 9). From 2019 onwards, ALK expects to deliver consistent, attractive, organic revenue growth of 10% or more from its existing business, with an ever-increasing contribution from the tablets. These projections build on a base-case assumption of a minimum viable sales uptake for the tablets in North America.

Earnings will be significantly subdued over the transformation period, due to the investments required to deliver the key priorities and build an effective growth and earnings platform. Key investments include the build-up in North America, clinical trials and upgrades for the legacy business, along with the portfolio rationalisation programme.

Free cash flow is expected to be negative during the transformation period because of subdued earnings, relatively high tax payments, working capital requirements and CAPEX investments. The accumulated negative cash flow is expected to be around DKK 1 billion, with the greatest effects in 2018 and 2019. This forecast assumes maintaining high production capacity to facilitate long-term growth in tablet sales.

These estimates do not include any payments related to future in-licensing or M&A activity, nor do they include earnings upsides from such activities or from new, complementary services and products.

Ambitions post-transformation
After the transformation period, ALK's ambition is to perform financially as a specialty pharma company. This means delivering sustainable revenue growth that reflects the vast potential in its disease area, and implies organic growth rates of 10% or more annually. It also means raising margins as soon as possible to levels that are in line with the wider specialty pharma industry. This, per current standards, would equate to EBITDA-margins in the high 20s. How quickly ALK reaches that level will depend on various factors, particularly how rapidly the company succeeds in unlocking the tablet opportunity in the USA.

Financial ambitions after transformation

By establishing a strong, long-term growth platform for the tablet portfolio and leveraging this platform to build the framework for a broader presence in allergy and asthma treatment, ALK expects to:

Deliver sustainable ≥10% p.a. revenue growth

Raise margins quickly to specialty pharma levels

Upsides

- Faster US uptake of tablets
- Price rises for legacy products
- Consolidation of AIT industry in Europe
- New products and adjacencies
- In-licensing, partnerships, acquisitions etc.

Downsides

- Slow US uptake of tablets
- Supply disruptions
- Further price and reimbursement pressure, mainly in Europe

Succeed in North America

ALK is committed to partnering with allergy specialists to succeed in establishing a scalable business model for the tablets in North America.

2017 status

Since the North American partnership with Merck (MSD outside the USA and Canada) ended in January 2017, ALK has regained all rights to its SLIT-tablets in North America and laid the groundwork for the roll-out of a new, self-directed commercialisation strategy for the world's largest allergy and asthma market.

Paramount has been the build-up of a pharma organisation capable of running the tablet franchise on top of the existing allergen extracts and diagnostics businesses. This build-up included the hiring of approximately 75 employees in areas such as sales, medical affairs, market access, clinical development, pharmacovigilance and administration. The expansion almost quadrupled ALK's field-force in North America to around 80 people.

ACARIZAX® / ODACTRA™ is the single most important factor in ALK's strategy for North America. As a treatment for the perennial house dust mite allergy, it allows patients to be initiated year-round. The product also opens up a whole new part of the southern USA, where ALK's other tablets are not relevant due to the limited presence of grass and ragweed allergies.

ACARIZAX® / ODACTRA™ was approved by both the FDA and Health Canada in early 2017, and the FDA transferred the tablet's product licence to ALK in August as well as those for GRASTEK® and RAGWITEK®. ALK launched the product in Canada in November and in the USA in January 2018. The launches followed extensive analyses of the markets and of MSD's experiences with GRASTEK® and RAGWITEK®.

As part of its market-building activities in the USA, ALK undertook steps to improve patients' access and adherence to tablet treatment, including setting up coupon and support programmes, as well as hiring an agency to help patients gain access to insurance coverage. At the publication of this report, around 50% of potential patients in the USA had unrestricted access to reimbursement for ODACTRA™ treatment via commercial insurance schemes.

ALK also targeted patient and physician groups, as well as key opinion leaders, to improve awareness of AIT and to build advocacy for the tablets. For example, ALK supported the American College of Allergy, Asthma and Immunology and the

Key metrics for success

To break down current market barriers and pave the way for tablets, ALK wants to clearly demonstrate to allergy specialists that tablets generate increased revenue for them, rather than cannibalising their existing business. Developing a viable go-to-market strategy is critical to the extent that, to begin with, actual sales come second. To illustrate this point, ALK assumes approximately 5,000 patients in the USA will be initiated onto ODACTRA™ during 2018.

Key metrics for initial success in North America are:

- New patient initiations for tablets, especially for ACARIZAX® / ODACTRA™
- The number of allergists who offer AIT in both SCIT and tablet forms
- Improved AIT adherence at partnered allergy practices

Selected ALK products in North America

Allergy-Asthma Network with the creation of a decision-making tool to help patients to choose the most appropriate form of AIT. In addition, ALK is establishing collaborations with selected allergists to help improve allergy management under corporate healthcare plans.

2018-20 plans

Over a three-year period (2018-20), ALK will invest approximately DKK 1 billion in a range of initiatives designed to make ALK the partner of choice for allergy specialists and to establish a scalable business model for the tablets in North America. This level of investment in a single market is unprecedented at ALK and is driven by the potential of a market that has over 50 million people with allergies, an estimated 10 million of whom are AIT-eligible but, of which just one-third actually receive AIT treatment today.

Central to success in North America will be using ALK's expertise and shared interests with allergists to drive better access and outcomes for all AIT-eligible patients, reaching out with support, disease information and treatment options via specialist sales representatives, digital platforms and via referral systems that encourage patients to consult an allergist.

Using a highly-targeted commercial approach, and building on an understanding of the businesses of the most relevant allergy specialists, ALK will demonstrate how the tablets can expand the number of patients who benefit from AIT, thereby reinforcing and revitalising the role of allergy specialists. ALK will initially focus on high-frequency interactions with approximately 2,000 of the most relevant allergy specialists in the USA, before expanding its outreach to an additional 4,000.

Current industry dynamics offer a window of opportunity for this approach. A trend towards self-medication such as over-the-counter (OTC) symptom-suppressants, along with patent expiries for other treatments, has seen big pharma companies de-prioritise their partnerships with allergists. ALK is well positioned to fill this void via its new tablet organisation and its long-standing relationships from selling allergen extracts, diagnostics and other products. These relationships were further strengthened through the January 2017 acquisitions of Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC (ALOK), which bolstered ALK's supply chain in North America and which allow it to supply allergy specialists with a broader range of allergen extracts and other materials.

2018-20 key initiatives

- The ongoing launches of ACARIZAX® / ODACTRA™
- A commercial approach focusing on high-frequency interactions with the most relevant allergists
- Partnerships with managed care organisations to demonstrate health economic benefits
- Patient support programmes to ensure affordable treatment initiation and successful treatment adherence
- A digital engagement strategy that shares ALK's allergy expertise and offers people with allergy a relevant portfolio of treatment options
- Inclusion of US patients in a multi-year clinical trial in children with allergic asthma
- A continued commitment to supplying allergy specialists with allergen extracts

Complete the tablet portfolio for all relevant ages

ALK is committed to globalising a full portfolio of SLIT-tablets for all relevant ages – adults, adolescents and children – covering the five most common global respiratory allergies: house dust mite, grass, tree, ragweed and Japanese cedar.

2017 status

ALK's efforts to develop a full portfolio of SLIT-tablets targeting the most common allergies – those estimated to affect more than 80% of respiratory allergy patients worldwide – are on track. In 2017, ALK's clinical activities and those of its partners advanced further:

House dust mite

See dedicated section on page 23.

Grass

The European label for GRAZAX® was updated to reflect data from the multi-year, pan-European *GRAZAX® Asthma Prevention* (GAP) trial. Furthermore, additional analysis of data from the trial, showing the benefit of GRAZAX® in the prevention of asthma symptoms, were presented at the European Academy of Allergy and Clinical Immunology's (EAACI) annual congress as well as published in the *Journal of Allergy and Clinical Immunology*.

Following approvals in Russia and Australia, at the publication of this report GRAZAX® / GRASTEK® had obtained marketing authorisations in 27 countries: 21 in the EU, plus Australia, Canada, Russia, Switzerland, Turkey and the USA.

Ragweed

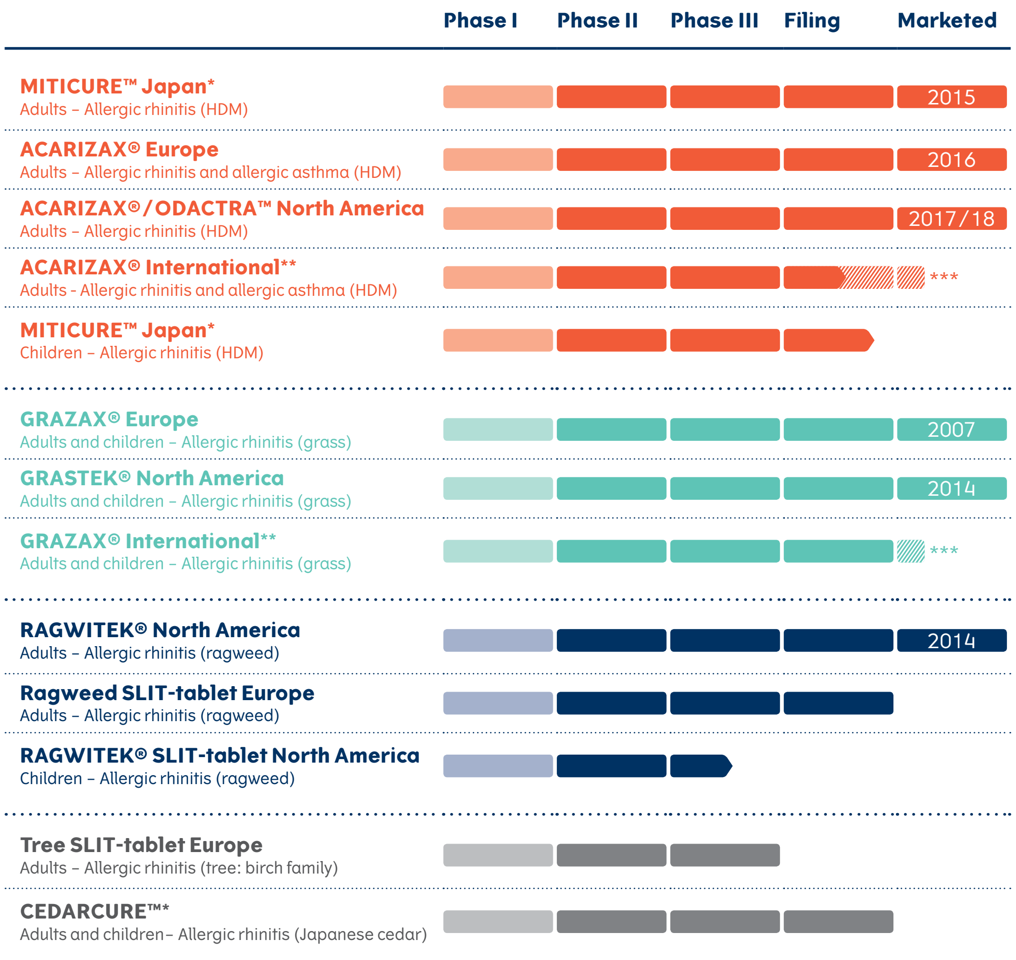
The ragweed SLIT-tablet, sold as RAGWITEK® in North America, was approved by European and Russian authorities in December 2017. These filings were primarily based on data from the North American development programme and the tablet could be a useful addition to ALK's portfolio, particularly in Eastern and Southern Europe where this allergy is most common. Paediatric development is continuing in North America.

At the publication of this report, the ragweed SLIT-tablet had obtained approval in Canada, the USA and in nine EU countries.

Tree

ALK reported a successful outcome of the pivotal Phase III clinical trial of the tree SLIT-tablet in Europe. The trial, involving 634 patients aged 12-65 years, met its primary endpoint, showing a clinical effect that was among the most significant that ALK has ever seen in field studies. ALK expects to submit a regulatory filing in Europe and Canada in 2018.

ALK's R&D pipeline



* Licensed to Torii for Japan
** Licensed to Abbott for Russia and South-East Asia and Seqirus for Australia and New Zealand
*** Already marketed in selected markets

Japanese cedar
The authorities in Japan approved the New Drug Application submitted by Torii for the SLIT-tablet against Japanese cedar pollen allergic rhinitis, the second most prevalent allergy in Japan. Branded CEDARCURE™, it is the first SLIT-tablet to be approved for both adult and paediatric use in Japan. A launch is expected to take place in 2018.

2018-20 plans

Over the next five years (2018-22), ALK will invest around DKK 400-600 million each year to complete the development of the tablet portfolio for all relevant ages, secure regulatory approvals, build market access and gather evidence for the tablets' use in children and adolescents, and in asthma.

With three FDA-approved tablets in the USA and the portfolio's advanced stage in other markets, ALK is clearly ahead of the competition. The planned clinical and commercialisation activities will help to ensure that ALK stays ahead and capitalises on its lead.

Key initiatives ahead include a paediatric efficacy and safety trial for the forthcoming tree SLIT-tablet, a new US paediatric trial for RAGWITEK®, clinical development in China, ACARIZAX®/ODACTRA™ paediatric asthma and rhinitis trials, as well as US post-marketing studies for GRASTEK®, RAGWITEK® and ODACTRA™.

The global paediatric development programme for ACARIZAX®/ODACTRA™ will include more than 1,600 children and adolescents aged five to 17 in two large, placebo-controlled, multinational trials. The first aims to demonstrate the effect on clinically relevant, house dust mite-induced asthma exacerbations, while the second aims to demonstrate the effect on daily hay fever symptoms and daily use of other medications. These trials could be potential game-changers. With a positive outcome – and subject to approval from authorities – an asthma indication would allow ALK to gain access to a significant new market opportunity. ALK expects to report top-line results from these two trials by 2021.

ALK and its partners will also implement a comprehensive commercialisation programme that will see multiple international launches plus applications for expanded use in existing markets.

Key initiatives 2018-20

	Clinical initiatives	Commercial initiatives
ACARIZAX®/ ODACTRA™/ MITICURE™	Global paediatric trials in allergic rhinitis and allergic asthma Add paediatric use in Japan Phase III trial in China Post-marketing surveillance studies in the USA	Launches in additional markets in Europe and selected International markets Launch in Japan for paediatric use, with other markets to follow
GRAZAX®/ GRASTEK®	Post-marketing surveillance studies in the USA	Launches in Australia Leverage data from GAP trial to build sales
RAGWITEK®	Paediatric safety trial in the USA (in addition to ongoing efficacy trial) Post-marketing surveillance studies in the USA	Launches in selected markets outside North America
Tree tablet	Submissions in Europe and Canada and possibly beyond Efficacy and safety trial in children in Europe	Launches in Europe and Canada and possibly beyond
CEDARCURE™		Launch in Japan upon satisfactory settlement of price

The roll-out of ACARIZAX®

2017 status

The roll-out of ACARIZAX® (ODACTRA™ in the USA, MITICURE™ in Japan) continued with its introduction in four new markets during 2017, followed by Spain and the USA in January 2018. Reception continues to be encouraging, with European revenue up by approximately 140% on 2016 and approximately 75,000 patients estimated to have initiated treatment world-wide since the first launch (2016: ~25,000). In Japan alone, ALK's partner Torii reported that it was initiating approximately 2,000 new patients per month on MITICURE™ in the second half of the year.

As anticipated, ACARIZAX® is generating a 'halo effect' for AIT in Europe that is benefiting other ALK products, particularly GRAZAX®. While this formed an important part of the thinking behind the marketing plan for ACARIZAX®, it is encouraging to see this happening in practice and bodes well for the ongoing launches in North America and International markets. Furthermore, statistics from European markets show that ACARIZAX® increases demand in otherwise stagnating markets for house dust mite AIT-products in general.

Further progress was made on the regulatory front as approvals were granted in the USA and Canada, while approval for use in adolescents was secured in Europe, and Torii submitted an application in Japan for an expansion of the local label to include paediatric use. In addition, acceptable agreements were reached on pricing and reimbursement with authorities in European markets, including France, which is the world's largest market for sublingual AIT, and where ACARIZAX® will be introduced in the first half of 2018.

At the publication of this report, ACARIZAX® had been approved in 20 countries and was awaiting the outcome of regulatory reviews in a further eight. Launches have now taken place in a total of 15 markets and, for those where approval has been granted but launch is yet to take place, ALK and its partners are engaged in either pricing and reimbursement negotiations or pre-launch marketing activities, or both.

In February 2017, clinical data from the clinical development programme led the Global Initiative for Asthma (GINA), for the first time, to add AIT as a treatment option in its Global Strategy for Asthma Management and Prevention. GINA's strategy is a widely recognised guideline for healthcare professionals and policy makers on the treatment and management of asthma. ACARIZAX® is currently indicated for both allergic rhinitis and allergic asthma in all European countries where it is registered, except one, as well as in Australia, and the applications submitted so far in International markets all target both allergic rhinitis and allergic asthma. ALK continues to pursue an indication of both rhinitis and allergic asthma in all relevant markets.

ACARIZAX®/ODACTRA™ globalisation

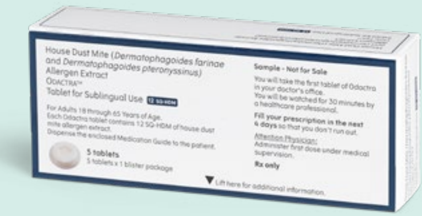
Launched ■ Approved ■ Filed ■ Preparations for filing

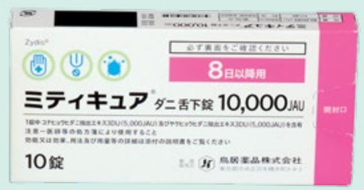
North America

Europe

Asia

Oceania





One product, three names

ALK's tablet against house dust mite allergy is most often referred to by its brand name in Europe and several other markets – ACARIZAX® – but in the USA, the same product is branded ODACTRA™, while in Japan, it is known as MITICURE™.

Patient engagement systems and adjacent business

ALK will drive digital patient engagement with the ultimate aim of supporting people with allergy earlier in their disease journey and creating new value from ALK's expanded allergy presence.

2017 status

Market research shows a clear trend towards self-medication in allergy, with around 60% of patients rarely seeing a doctor. Instead, patients increasingly use the internet as the prime source of information about their condition, using what they learn to self-medicate and often returning to the same place for further guidance. This makes it important that ALK engages digitally with such patients, to ensure the online information is accurate and to offer a range of relevant treatment options while encouraging more serious cases to consult an allergist.

In 2017, ALK piloted the commercial trickle-through effect of leveraging existing traffic on ALK-hosted patient websites to activate people with allergy. Pilots included a social media campaign in Sweden which offered patients a diagnosis via skin prick tests, thereby prompting them to see an allergist. Meanwhile, in Germany, web links were included to a third-party supplier offering direct sales of relevant products. These and other pilots informed a digital engagement strategy developed by a newly established ALK 'growth lab'.

2018-20 plans

ALK has established a new consumer care division which will expand the use of digital patient engagement, building on these early successes in Europe. ALK will expand its scope and leverage its expertise in allergy to become more relevant for patients and doctors. The ultimate goal is to increase the likelihood of success with the core AIT products and target a larger share of the total allergy market with new, complementary products and services.

The new consumer care division will give ALK access to the non-AIT allergy market which accounts for around 95% of allergy-related revenue, worth more than DKK 120 billion world-wide, and will allow ALK to forge stronger relationships with people with allergy throughout their disease journey. By establishing itself as a trusted authority on allergy and its treatment, ALK can smooth the path towards AIT treatment for those patients who would benefit most.

The first such platform will offer a range of allergy-related consumer products covering avoidance, prevention and relief, and will be launched in Germany in H1 2018. The platform is based on ALK's existing allergiecheck.de website, which has close to 2 million unique users. Using insights from this set-up, ALK will launch additional initiatives in other markets.

To support patients across a wider spectrum of allergic disease, ALK will also look at adjacent business opportunities, via partnerships, in-licensing or product acquisitions. Potential new product areas include new tools to help improve treatment adherence, respiratory medicines, and a new range of support tools to help allergists to ensure more AIT patients complete their treatment. Finally, ALK will expand its anaphylaxis franchise.

Key initiatives 2018-20

- Establish consumer care division to drive digital patient engagement
- Use digital platforms to offer solutions for early allergy intervention, symptom alleviation and relief
- Launch new tools to help improve treatment adherence
- Explore expansion of ALK's portfolio with respiratory prescription medicines
- Expand the Jext® anaphylaxis franchise in Europe and prepare for launch in the USA and other markets

The first digital platform

The first new digital platform will be launched in Germany in H1 2018.

Optimise and reallocate ALK's resources

ALK will improve efficiency by strengthening its competencies and structures as well as simplifying processes, particularly within product supply.

2017 status

Significant work to improve robustness, scalability and quality within product supply continued in 2017 with particular focus on the SCIT production facilities. The absence of buffer stocks for certain products, a consequence of the facility upgrades, meant that variations in production output, coupled with demand, continued to affect delivery times for some products and markets. ALK has issued regular status updates to prescribers on this issue and offered alternative products where possible. The situation is expected to ease in 2018 as warehouse stocks are replenished.

In September, the French authorities issued an injunction against ALK, linked to required upgrades to the quality system at ALK's manufacturing facility in France. This followed the identification by ALK of an environmental contamination in the facility's sterile area which led ALK to stop production in the affected area and halt the release of products made there. In order to address the issue fully, ALK decided to reduce production output during the necessary upgrades. This unfortunately caused temporarily prolonged delivery times for selected SLIT-drops products. The upgrades continue as agreed with the authorities and product supply is expected to normalise during 2018, albeit with a reduced product range and with enhanced measures in place to prevent a recurrence of the original incident. Tablet production takes place elsewhere and is unaffected.

Meanwhile, ALK's work to scale-up the production capacity for its SLIT-tablets progressed according to plans.

2018-20 plans

ALK will carry out a company-wide programme to strengthen its competencies and structures, with a particular focus on product supply, where steps will be taken to improve long-term gross margins which are currently challenged by changes in the sales mix, short-term investments to increase robustness in the legacy business, as well as costs related to the build-up of tablet production and inventories.

One key move to strengthen robustness involves reducing manufacturing complexity in the legacy business. This involves an extensive portfolio rationalisation programme that will further focus the portfolio on cost-effective products. While this will negatively impact sales and earnings in the short-term, the changes are required to increase efficiency, portfolio robustness and compliance, and will allow ALK to benefit from the regulation-led market consolidation that is currently sweeping Europe. Discontinued products will be replaced with standardised, evidence-based tablets wherever possible. However, ALK will ensure that prescribers and patients still have a range of treatment options by maintaining and continuing to invest in a core range of SCIT and SLIT-drops.

Across the organisation, ALK will cease activities that fall outside the strategic priorities, and will ensure that all functions are the right size, with the right competences. This will result in some organisational changes and redundancies but the overriding goal is to free up resources which can be reallocated to strategic initiatives. The streamlining of administrative processes and functions will continue, while R&D resources will be predominantly focused on the current pipeline, life-cycle management of existing products, as well as supporting the introduction of complementary products and services.

Finally, high priority will be given to transforming the company culture into one focused on being relevant to more patients, and one which embraces change, agility, empowerment and decisive prioritisation.

Initiatives to strengthen long-term gross margins

- Succeed with tablet commercialisation
- Accelerate product rationalisation
- Reduce scrappage
- Increase production yield
- Improve efficiency of production processes and overall flow
- Assess the potential for increased automation

A major competitive advantage

High-quality biological manufacturing and sourcing processes represent a major competitive advantage for ALK, both as a barrier to new market entrants, and a point of differentiation from smaller companies unwilling or unable to invest to keep pace with ever more stringent industry regulations. ALK's production processes meet current quality standards and all seven main facilities are subject to regular inspections. In 2017, ALK hosted eight inspections by authorities and partners (2016: 12). Product Supply sourced around 200 different allergens for use in AIT and dispensed approximately 100 million doses of AIT in 2017.

Corporate matters

Risk management

ALK's Board of Management is responsible for the on-going management of risk, including risk mapping, assessment of probabilities and potential consequences, and the introduction of risk-reducing measures. Board of Management has established a Risk Committee to assist it in meeting its overall responsibility for risk management. Risk management reports are submitted to the Board of Directors' audit committee on an annual basis. The following risks are of particular significance to ALK:

Commercial risks

Risks related to research and development

The future success of ALK depends on the Group's ability to maintain current products and successfully identify, develop and market new, innovative drugs, which involves significant risks. A pharmaceutical drug must be subject to extensive and lengthy clinical trials to document aspects such as safety and efficacy before it can be approved for marketing. In the course of the development process, the outcome of these trials is subject to significant risks. Even though substantial resources are invested in the development process, the trials may produce negative results. Delays in obtaining regulatory approvals – or failure to obtain such approvals – may also have a major impact on the ability of ALK to achieve its long-term goals. ALK and its collaborative partners perform thorough risk assessments of its 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.

Risks related to market conditions

Regulation and price control

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

Commercialisation

If ALK and its partners succeed in developing new products and obtaining regulatory approvals for them, the ability to generate revenue depends on the products being accepted by doctors and patients. The degree of market acceptance for a new product or drug candidate depends on a number of factors, including the demonstration of clinical efficacy and safety, cost-effectiveness, convenience and ease of administration, potential advantages over alternative treatment methods, competition, and marketing and distribution support. If ALK's new products fail to achieve market acceptance, this could have a significant influence on the Group's ability to generate revenue.

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. Commercialisation is a crucial part of the Group's strategic basis and activities.

ALK's products may be associated with allergic reactions of varying extents, durations and severities. If such events occur in unexpected situations, they may have an impact on the Group's earnings and sales. Due to the potentially serious consequences, it is crucial for ALK to stringently monitor product quality and safety, both in clinical development and in sales and marketing activities. If, despite the high level of quality and safety, a situation should occur in which it is necessary to recall a product, ALK has procedures in place to ensure that this can be managed swiftly and efficiently.

Competition

ALK operates in markets characterised by intense competition. If, for instance, a competitor launches a new and more effective treatment of 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. Both competition and price are risks that may have a material impact on ALK's ability to achieve its long-term goals. ALK therefore monitors economic developments, the competitive situation and initiatives in all important markets with the aim of appropriate risk mitigation.

Risks related to infrastructure

Production and quality

ALK has concentrated most of its 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 emergency situations, such as lack of, or poor access to raw materials: for instance, pollen. This planning includes the prevention of unwanted events and preventative inventory management; such as the build-up of contingency inventories in order to ensure an unbroken chain of production and supply.

Production and manufacturing processes are also subject to periodic and routine inspections by regulatory authorities as a regular part of their monitoring processes in order to ensure that all manufacturers observe the prescribed requirements and standards. Meeting these quality standards is a prerequisite for the Group's competitive strength. ALK's production processes and quality standards have been developed and optimised over many years.

Dependence on third parties

ALK has partnership agreements with third parties with a view to commercialising the Group's products in a number of markets and with parties supplying important input for key production processes. Although there are financial incentives for all of ALK's partners to fulfil their contractual obligations, there can be no assurance that they will actually do so. The factors that motivate ALK's partners to develop and commercialise products may be affected by conditions and decisions beyond ALK's control. The agreements with Torii, Abbott, and Seqirus entitle ALK to receive certain milestone payments. These payments depend on continuing favourable results in the development of the pharmaceutical products to which ALK's partners hold the licence rights. Moreover, reliance on suppliers and third-party manufacturers entails risks that ALK would not be subject to if the Group possessed the necessary in-house manufacturing capabilities. Such risks include but are not limited to:

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

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

Risks related to key employees

ALK is dependent on being able to attract and retain employees in key positions. A loss of key employees may have a material impact on the Group's market and research efforts. ALK manages this risk, among other things, by continuously offering its staff professional development opportunities and competitive compensation.

Risks related to cyber-security

Disruption to IT systems, such as breaches of data security, may happen across the global value chain, where well-functioning IT systems and infrastructure are critical for the Group's ability to operate effectively. ALK manages this risk, among other ways, by having a security strategy in place to prevent intruders from causing damage to systems and gaining access to critical data and systems. Awareness campaigns, access controls and intrusion detection and prevention systems have all been implemented.

Risks related to business ethics and legal issues

Business ethics

ALK's good reputation is essential for operating within the pharmaceutical industry. ALK aims to maintain its standing by acting in compliance with all applicable regulations and legislation. ALK strives to act professionally, honestly and with high integrity throughout the Group in relation to stakeholders from customers, employees and shareholders, to society, suppliers and partners. ALK's Code of Conduct is updated regularly and defines ALK's high standard of ethical behaviour. In 2017, ALK conducted a global anti-bribery awareness campaign for all employees.

Patents and intellectual property rights

Patents and other intellectual property rights are important for developing and retaining ALK's competitive strength. The risk that ALK might infringe patents or trademark rights held by other companies, as well as the risk that other companies may attempt to infringe the patents and/or trademark rights of ALK are both monitored and, if necessary, suitable measures are taken.

Risks related to financial reporting

ALK's risk management and internal controls related to financial reporting are designed to effectively control the risk of material misstatements. A detailed description of ALK's internal controls and risk management system in relation to financial reporting processes is included in the Statutory Corporate Governance Statement, cf. section 107b of the Danish Financial Statement Act available at the company's website: http://ir.alk.net/risk.cfm

Financial risks

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

Foreign exchange risk

The general objective of ALK'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 in ALK relates to exchange rate fluctuations. The greatest exposure is to USD and in 2017, 21% of ALK's revenue was denominated in USD. ALK's sales are not deemed to be exposed to EUR due to Denmark's participation in the European Exchange Rate Mechanism.

The table below shows the estimated effect of a 10% increase in the USD exchange rate on revenue and EBITDA levels, respectively. Exchange rate risks relating to operations are primarily hedged by matching receipts and payments in the same currencies and by forward exchange contracts and options.

Sensitivity to a 10% increase in USD exchange rate

Revenue, approx.	DKK	+60 million
EBITDA, approx.	DKK	-5 million

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

Foreign exchange exposure relating to future transactions and assets and liabilities is evaluated and hedged by instruments such as forward exchange contracts. 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.

Interest rate and liquidity exposure

At the end of the financial year, interest-bearing assets stood at approximately DKK 711 million. An increase in the interest rate of 1 percentage point on cash and marketable securities would decrease net profit and equity by approximately DKK 4 million, as the value of marketable securities would deteriorate. It is not expected that the interest rate exposure will be hedged as this is not considered financially viable.

Cash is invested in credit-worthy, liquid, interest-bearing instruments of relatively short durations. The liquidity risk is considered to be minimal due to the Group's current capital structure.

Credit exposure

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

Trade receivables are monitored closely at the local level and are distributed across a number of markets and customers. The credit risk is therefore considered to be low.

Governance and ownership

Corporate governance

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

The Board of Directors defines the strategic framework for ALK's action plans and activities on the basis of objectives, strategies and policies. Furthermore, on behalf of the shareholders, the Board of Directors supervises the organisation, monitors procedures and responsibilities and sees that the company is managed appropriately and in accordance with legislation and ALK's articles of association.

The Board of Directors appoints a Board of Management to undertake the day-to-day management of ALK. The Board of Directors sets out the terms and tasks of the Board of Management, supervises its work and seeks a constructive dialogue with the Board of Management regarding the implementation of the selected strategies and the overall development of the company.

The Board of Directors consists of nine members. Six members, including the Chairman and the Vice-Chairman, are up for re-election each year at the annual general meeting. Three members are employee-elected and serving four-year terms. The age limit is 70 years.

ALK's Statutory Corporate Governance Statement for the financial year 2017, pursuant to section 107b of the Danish Financial Statement Act, is available at http://ir.alk.net/risk.cfm

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 44 of the 47 recommendations.
The Board of Directors' 'comply or explain' review is available at http://ir.alk.net/corporate-governance.cfm

At the annual general meeting in March 2017, Steen Riisgaard was re-elected Chairman of the Board of Directors and Lene Skole was re-elected Vice Chairman. Lars Holmqvist, Anders Gersel Pedersen, Jakob Riis and Per Valstorp were all re-elected as members of the Board of Directors.

Corporate Social Responsibility

ALK's Statutory Report on Corporate Social Responsibility (CSR) for the financial year 2017, pursuant to sections 99a and 99b of the Danish Financial Statements Act, is available at https://www.alk.net/about/csr

The report provides a detailed account of the basis for CSR at ALK, namely the CSR policy and the Code of Conduct. In 2016, ALK's CSR policy was updated, integrating the company's efforts and ambitions relating to the UN Sustainable Development Goals (SDG):

- 3: Good health and well-being
- 8: Decent work and economic growth
- 12: Responsible consumption and production
- 13: Climate action
- 16: Peace, justice and strong institutions

In 2017, the above SDGs were sustained and further developed and incorporated into the business and purpose of ALK.

In addition, a risk analysis of ALK's activities has been repeated for the countries in which ALK operates, in relation to the environment and climate, anti-corruption, and human and labour rights, aiming to ensure that ALK conducts business in the most sustainable, ethical and contributing manner.

The Code of Conduct describes the ethical requirements for all employees' behaviour in relation to customers, employees, shareholders, society, suppliers and partners. The Code of Conduct supports and integrates the UN Global Compact's 10 principles in the areas of human and labour rights, the environment and anti-corruption. Based on the Code of Conduct, and anchored in ALK's core values, the CSR policy outlines current priorities and focus areas. The policy is implemented via various policies and procedures, including HR policies, EHS (Environment, Health and Safety) action plans and organisations, quality procedures and similar measures.

Core data for the share

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

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 efficient 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 Lundbeckfonden, while all B shares are listed and freely negotiable.

At the end of 2017, ALK had 15,495 registered shareholders, an increase compared to 2016 (14,623). The registered shareholders own 96% of the share capital (96). As of 31 December 2017, two shareholders have notified shareholdings of 5% or more: Lundbeckfonden has a 40.3% interest (including A shares and AA shares) and ATP has a 7.1% interest. Of the 30 largest registered shareholders, 29 are international institutional investors — from North America, the UK and Scandinavia in particular. In the shareholder register, the international ownership is estimated at approximately 19% (22), representing 32% of the free float of the B share capital (37), excluding Lundbeckfonden's holding and treasury shares.

ALK's holding of its own shares was reduced following settlement of share option and conditional share programmes. At the end of the year, ALK held 285,806 or 2.6% of its own shares (2.9% at the end of 2016) which is considered sufficient to cover current obligations related to ALK's long-term incentive programmes.

Notified shareholdings of 5% or more of the company's shares as of 31 December 2017

	Registered office	Number of shares		Interest	Votes
Lundbeckfonden	Copenhagen, Denmark	920,720	A shares	40.3%	67.2%
		92,072	AA shares		
		3,474,827	B shares		
ATP*	Hillerød, Denmark	791,631	B shares	7.1%	3.9%
ALK – own shares	Hørsholm, Denmark	285,806	B shares	2.6%	-

* The Danish Labour Market Supplementary Pension

Return and liquidity

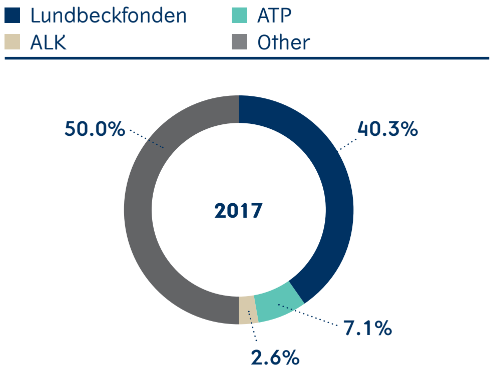
ALK aims to provide long-term shareholder return through an increased share price, the paying-out of dividends and the purchase of its own shares. At the end of 2016, the share price was DKK 920 and the share closed 2017 at DKK 740.

Dividend and capital structure

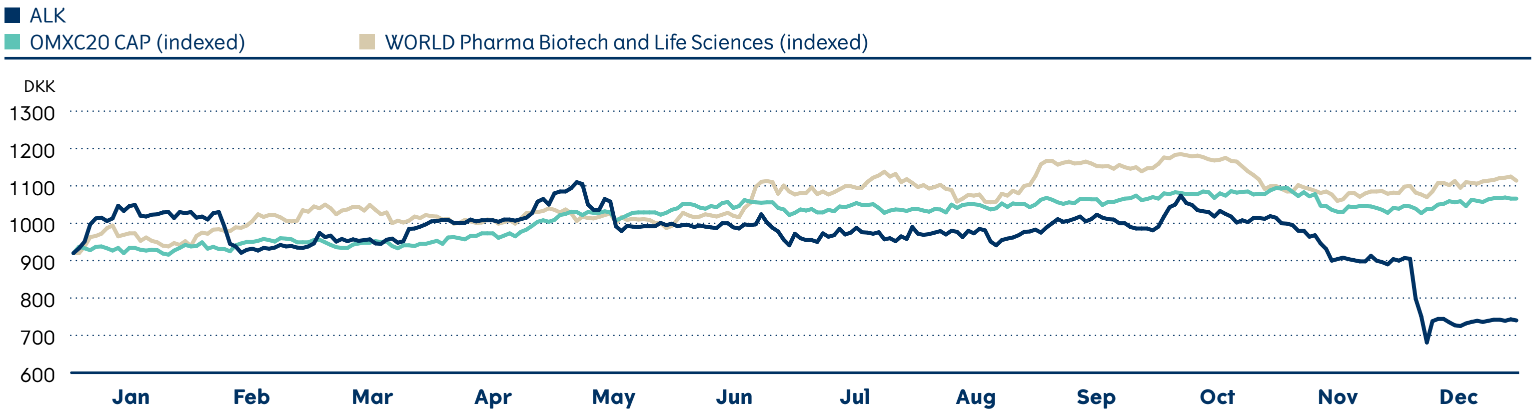
In December 2017, ALK launched an offering of new shares at market price to finance the updated business strategy (cf. pages 17-25). Through an accelerated bookbuilding process, ALK offered up to 92,076 new AA shares and up to 920,760 new B shares representing 10% of its registered share capital.

The offering was oversubscribed by Danish and international investors and the shares were allotted on an individual basis. The offer price was settled at DKK 690 per share, resulting in gross proceeds of

Shareholders



The ALK share in 2017



DKK 698,856,840. After this equity increase, the share capital of the Company amounts to DKK 111,411,960.

The Board of Directors considers that the proceeds from the offering, together with credit facilities, will constitute a sufficient financial basis for implementing the updated strategy and funding the expected negative free cash flow during the transformation period. In support of the strategy, the Board of Directors has temporarily suspended dividend payments. In line with this decision, at the annual general meeting in March 2018, the Board of Directors proposes that no dividend will be declared.

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

Following the equity offering in December 2017, ALK does not presently have an authorisation to further increase the share capital. At the annual general meeting in March 2018, ALK therefore intends to propose that the company's articles of associations are updated to include a new authorisation allowing the Board of Directors to increase the share capital.

Investor Relations

Based on its IR policy (http://ir.alk.net/policy.cfm), 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 approximately 200 individual meetings with analysts and investors in 2017, and also presented at various investor conferences.

During the year, ALK published 40 company announcements (31), including reports on transactions by managerial staff. All announcements are available on the website together with reports, presentations, telephone conferences, share price information, estimates from the analysts following the share, and related information. Registered shareholders are encouraged to sign up at the InvestorPortal.

Financial calendar 2018

Annual general meeting	12 March
Three-month interim report (Q1)	4 May
Six-month interim report (Q2)	15 August
Nine-month interim report (Q3)	9 November

Find out more

Visit Investor Relations at http://ir.alk.net

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Tel. +45 4574 7527 Mobile +45 2261 2525

LUNDBECKFONDEN

Better lives through new knowledge

Lundbeckfonden

Lundbeckfonden (LFI A/S) is one of the largest industrial foundations in Denmark with the total market value of its commercial activities estimated at more than DKK 65 billion and an annual spend of approximately DKK 500 million in grants to support biomedical research with a special focus on the brain. 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 16 billion.

Lundbeckfonden also invests in European and American life-science companies and supports a range of early-stage investment projects. Every year, Lundbeckfonden awards The Brain Prize, a personal research prize of EUR 1 million. The prize is awarded to one or more scientists who have distinguished themselves by an outstanding contribution to global neuroscience and who are still active in research.

For further information on the foundation, please visit www.lundbeckfonden.com

" Lundbeckfonden's business activities encompass three large subsidiaries, an international portfolio of 19 venture companies, a portfolio of a handful of small biotech companies based on research from Danish universities and internal management of available funds of around DKK 14 billion.

www.lundbeckfonden.com

Board of Directors and Board of Management

Board of Directors

Steen Riisgaard

Professional board member

Chairman of the Nomination Committee
Chairman of the Remuneration Committee

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

Directorships
COWI Holding A/S, *C*
Xellia Pharmaceutical A/S, *C*
The Novo Nordisk Foundation, *VC*
The Villum Foundation, *VC*
Novo A/S
VKR Holding A/S
Aarhus University
Corbion N.V., the Netherlands
WWF Danmark, *C*

Lene Skole*

Lundbeckfonden, CEO and directorships at two subsidiaries

Member of the Audit Committee
Member of the Nomination Committee

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

Directorships
Falck A/S, *VC*
H. Lundbeck A/S, *VC*
TDC A/S, *VC*
Tryg Forsikring A/S
Tryg A/S
Ørsted A/S, *VC*

Lars Holmqvist*

Professional board member

Member of the Remuneration Committee

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

Directorships
Lundbeckfonden
H. Lundbeck A/S
Tecan AG, Switzerland
BPL Holdings, UK

Anders Gersel Pedersen*

H. Lundbeck A/S, Executive Vice President

Member of the Remuneration Committee
Chairman of the Scientific Committee

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

Directorships
Bavarian Nordic A/S, *VC*
Genmab A/S, *VC*

Jakob Riis*

Falck A/S, President & CEO

Chairman of the Audit Committee

Competences
Experience in management, sales and marketing in the international pharmaceutical industry.

Directorships
Falck Health Care Holding A/S
Copenhagen Institute of Interaction Design, *C*
Copenhagen Capacity

Per Valstorp

Professional board member

Member of the Audit Committee

Competences
Experience in global production within the international pharmaceutical industry and other sectors.

Directorships
DBI Plastics A/S
European Freeze Dry ApS
New Xellia Group A/S
Nordic Healthcare Technology ApS, *C*
Orana A/S, *C*
Scanbur A/S

C = Chairman
VC = Vice Chairman

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 Lundbeckfonden, which owns 40.3% of ALK

Board of Directors and Board of Management

Board of Directors – continued

Andreas Slyngborg Holst

Director, EU QPPV, Head of QPPV Office, Global Pharmacovigilance, ALK-Abello A/S

Employee-elected

Jacob Kastrup

Facility Manager, ALK-Abello A/S

Employee-elected

Katja Barnkob Thalund

Senior CMC Project Manager, ALK-Abello A/S

Employee-elected

The Board of Directors' shares in ALK

	Born	Position	Board member since	Holding as at 31 December 2017	Changes during the year
Steen Riisgaard	1951	Chairman	2011	1,000	+1,000
Lene Skole*	1959	Vice Chairman	2014	1,150	+900
Lars Holmqvist*	1959	Board member	2015	0	-
Andreas Slyngborg Holst	1953	Board member	2015	100	-138
Jacob Kastrup	1961	Board member	2011	8	-
Anders Gersel Pedersen*	1951	Board member	2005	0	-
Jakob Riis*	1966	Board member	2013	550	-
Katja Barnkob Thalund	1969	Board member	2011	24	-
Per Valstorp	1949	Board member	2015	2,000	+1,000
Total				**4,832**	**+2,762**

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 Lundbeckfonden, which owns 40.3% of ALK

Board of Directors and Board of Management

Board of Management

Carsten Hellmann

President & CEO

Directorships
Coloplast A/S

Henrik Jacobi

Executive Vice President, Research & Development

Søren Jelert

Executive Vice President & CFO

As of 1 January 2018, Søren Jelert succeeded Flemming Pedersen as Group CFO.

Søren Niegel

Executive Vice President, Operations

As of 29 November 2017, Søren Niegel took responsibility for Product Supply, replacing Helle Skov, in addition to his responsibility for Commercial Operations.

The Board of Management's ownership interests in ALK as at 31 December 2017

	Born	Shares	Net changes during the year***	Options	Net changes during the year***	Condi-tional shares	Net changes during the year***	Perfor-mance shares	Net changes during the year***
Carsten Hellmann	1964	900	+900	34,648	+34,648	1,140	+1,140	985	+985
Henrik Jacobi	1965	1,538	+480	11,573	+2,718	1,061	-600	549	+549
Søren Jelert	1972	0	0	0	0	0	0	0	0
Søren Niegel	1971	1,918	+480	23,479	+2,624	1,061	-600	530	+530
Total		**4,356**	**+1,860**	**69,700**	**+39,990**	**3,262**	**-60**	**2,064**	**+2,064**

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

Remuneration

Directors' fees
The members of the Board of Directors receive a fixed fee, which is approved by the annual general meeting. Members are not offered any share options, conditional shares or other incentive plans.

The directors' fees were unchanged in 2017: The base fee is DKK 275,000, the Vice Chairman receives double that amount and the Chairman gets three times the base fee. In addition, the members of the board committees receive a fee of DKK 100,000, with the chairman of the committee receiving DKK 150,000. The Board of Directors recommends to the annual general meeting that the fees be maintained in 2018.

Board of Management remuneration
The remuneration guidelines for ALK's Board of Management are reviewed and approved by shareholders at the annual general meeting, most recently in March 2017. Remuneration is structured to offer a balance between fixed and performance-based pay to ensure ALK is able to attract and retain key personnel. The structure also serves to incentivise management to create long-term value for shareholders.

In addition to a fixed salary, pension and other, standard, non-monetary benefits, Board of Management members' remuneration package includes two variable components: an annual cash bonus and an equity-based bonus.

The annual cash bonus is linked to the achievement of pre-defined objectives and the CEO may receive a maximum of nine months of the annual base salary and the Executive Vice Presidents a maximum of six months of the annual base salary.

The equity-based bonus is linked to the fulfilment of strategic goals and is split equally between a share option programme and a performance share programme. The total value of each programme may not exceed 25% of the base salary of the recipient (but in case of significant over-performance may go as high as 50%).

Grants to Board of Management members are shown in the table to the left and are described in detail in note 5. Total Board of Management remuneration appears in note 4.

Financial statements

Statements

Consolidated financial statements

Parent company financial statements

Statement by Management on the annual report

The Board of Directors and the Board of Management have today considered and approved the annual report of ALK-Abelló A/S for the financial year 1 January to 31 December 2017.

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

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2017 as well as of the results of their operations and cash flows for the financial year 1 January to 31 December 2017.

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

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

Hørsholm, 6 February 2018

Board of Management

Carsten Hellmann
President & CEO

Henrik Jacobi
Executive Vice President, Research & Development

Søren Jelert
Executive Vice President & CFO

Søren Niegel
Executive Vice President, Operations

Board of Directors

Steen Riisgaard
Chairman

Lene Skole
Vice Chairman

Lars Holmqvist

Andreas Slyngborg Holst

Jacob Kastrup

Anders Gersel Pedersen

Jakob Riis

Katja Barnkob Thalund

Per Valstorp

Independent auditor's report

To the shareholders of ALK-Abelló A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of ALK-Abelló A/S for the financial year 1 January 2017 to 31 December 2017 which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and in accordance with Danish disclosure requirements for listed companies, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2017, and of the results of its operations and cash flows for the financial year 1 January 2017 to 31 December 2017, in accordance with International Financial Reporting Standards as adopted by the EU and in accordance with Danish disclosure requirements for listed companies.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2017, and of the results of its operations for the financial year 1 January 2017 to 31 December 2017 in accordance with the Danish Financial Statements Act.

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

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

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

We were first appointed auditors of ALK-Abelló A/S before 1995. We have been re-appointed annually at the annual general meetings for a total consecutive engagement period of more than 23 years up to and including the 2017 financial year.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventories
At 31 December 2017, inventories of the Group amount to DKK 875 million (31 December 2016: DKK 676 million) comprising raw materials and consumables, work in progress and manufactured goods and goods for resale. Inventories are measured at cost determined by applying the FIFO method or net realisable value where this is lower. The net realisable value of the ALK product portfolio is contingent on forecasting of future sales and the ability to successfully commercialise the brand, and is therefore to a wide extent based on assumptions and judgement made by Management. Consequently, there is a risk that inventories will be impaired if the future cash flows and other assumptions do not meet Management's expectations.

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

How the matter was addressed in our audit
We have obtained the Group's inventory valuation model and tested the reasonableness of the key assumptions, in particular future revenue projections, and the impact of the expiry dates of the inventory. We have assessed and challenged Management's assumptions and judgement used in the inventory valuation model, including:

- Discussing with Management and key employees whether the valuation of the inventories is supported by future sales forecasts.
- Analysing and challenging Management's estimates with regard to projected sales forecasts.
- Obtaining supporting documentation for key assumptions, including expiry dates for inventories.
- Obtaining and evaluating Management's sensitivity analyses to assess the level of sensitivity to possible changes in key assumptions applied by Management.

Statement on the management review
Management is responsible for the management review.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Copenhagen, 6 February 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorised
Public Accountant
MNE no 9943

Sumit Sudan
State-Authorised
Public Accountant
MNE no 33716

Contents of the consolidated financial statements

Consolidated financial statements

Notes

Income statement

Amounts in DKKm	Note	**2017**	2016
Revenue	3	2,910	3,005
Cost of sales	4-6,14,26	1,268	1,008
Gross profit		**1,642**	**1,997**
Research and development expenses	4-6	426	385
Sales and marketing expenses	4-6,26	1,067	910
Administrative expenses	4-6,26	231	230
Other operating income		2	7
Operating profit/(loss) (EBIT)		**(80)**	**479**
Financial income	7	17	22
Financial expenses	7	59	14
Profit/(loss) before tax (EBT)		**(122)**	**487**
Tax on profit	8	36	217
Net profit/(loss)		**(158)**	**270**
Earnings per share (EPS)	16		
Earnings per share (EPS)		(15.93)	27.51
Earnings per share (DEPS), diluted		(15.86)	27.24

Statement of comprehensive income

Amounts in DKKm	Note	**2017**	2016
Net profit/(loss)		**(158)**	**270**
Items that will subsequently not be reclassified to the income statement:			
Actuarial gains/(losses) on pension plans	17	18	(17)
Tax related to actuarial gains/(losses) on pension plans		(6)	6
		12	**(11)**
Items that will subsequently be reclassified to the income statement, when specific conditions are met:			
Foreign currency translation adjustment of foreign affiliates		(109)	8
Tax related to other comprehensive income, that will subsequently be reclassified to the income statement		15	-
Total		**(82)**	**(3)**
Total comprehensive income/(loss)		**(240)**	**267**

Cash flow statement

Amounts in DKKm	Note	2017	2016
Net profit / (loss)		**(158)**	**270**
Adjustments			
Adjustments for non-cash items	9	412	408
Changes in working capital	20	(282)	(87)
Net financial items, paid		(10)	-
Income taxes, paid		(349)	(186)
Cash flow from operating activities		**(387)**	**405**
Acquisitions of companies and operations	10	(94)	-
Additions, intangible assets	11	(27)	(46)
Additions, tangible assets	12	(240)	(179)
Sale of non-current assets		3	21
Cash flow from investing activities		**(358)**	**(204)**
Free cash flow		**(745)**	**201**
Dividend paid to shareholders of the parent		(49)	(49)
Sale of treasury shares		3	47
Exercise of share options	5	(5)	(89)
Proceeds from borrowings		-	446
Repayment of borrowings		(17)	(316)
Emission of shares		688	-
Cash flow from financing activities		**620**	**39**
Net cash flow		**(125)**	**240**
Cash beginning of year		292	176
Marketable securities beginning of year		548	432
Cash and marketable securities beginning of year		**840**	**608**
Unrealised gain / (loss) on cash held in foreign currency and financial assets carried as cash and marketable securities		(4)	(8)
Net cash flow		(125)	124
Cash year end		162	292
Marketable securities year end		549	548
Cash and marketable securities year end		**711**	**840**

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.

Balance sheet

Amounts in DKKm	Note	31 Dec. 2017	31 Dec. 2016
Assets			
Non-current assets			
Intangible assets			
Goodwill	11	461	422
Other intangible assets	11	291	342
		752	**764**
Tangible assets			
Land and buildings	12	750	774
Plant and machinery	12	378	412
Other fixtures and equipment	12	53	52
Property, plant and equipment in progress	12	397	389
		1,578	**1,627**
Other non-current assets			
Securities and receivables		7	8
Deferred tax assets	13	466	449
		473	**457**
Total non-current assets		**2,803**	**2,848**
Current assets			
Inventories	14	875	676
Trade receivables	15	326	295
Receivables from affiliates	27	25	22
Income tax receivables		65	26
Other receivables		73	66
Prepayments		80	26
Marketable securities		549	548
Cash		162	292
Total current assets		**2,155**	**1,951**
Total assets		**4,958**	**4,799**

Amounts in DKKm	Note	31 Dec. 2017	31 Dec. 2016
Equity and liabilities			
Equity			
Share capital	16	111	101
Currency translation adjustment		(87)	22
Retained earnings		3,266	2,752
Total equity		**3,290**	**2,875**
Liabilities			
Non-current liabilities			
Mortgage debt	18	293	310
Bank loans and financial loans	18	448	448
Pensions and similar liabilities	17	220	234
Other provisions	19	20	1
Deferred tax liabilities	13	21	124
		1,002	**1,117**
Current liabilities			
Mortgage debt	18	17	17
Trade payables		121	132
Income taxes		6	167
Other provisions	19	39	36
Other payables		483	455
		666	**807**
Total liabilities		**1,668**	**1,924**
Total equity and liabilities		**4,958**	**4,799**

Statement of changes in equity

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2017				
Equity at 1 January 2017	**101**	**22**	**2,752**	**2,875**
Net profit/(loss)	-	-	(158)	(158)
Other comprehensive income/(loss)	-	(109)	27	(82)
Total comprehensive income/(loss)	**-**	**(109)**	**(131)**	**(240)**
Share-based payments	-	-	21	21
Share options settled	-	-	(5)	(5)
Sale of treasury shares	-	-	3	3
Tax related to items recognised directly in equity	-	-	(3)	(3)
Dividend paid	-	-	(51)	(51)
Dividend on treasury shares	-	-	2	2
Emission of shares (proceeds)	10	-	689	699
Emission of shares (costs)	-	-	(11)	(11)
Other transactions	**10**	**-**	**645**	**655**
Equity at 31 December 2017	**111**	**(87)**	**3,266**	**3,290**

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2016				
Equity at 1 January 2016	**101**	**14**	**2,582**	**2,697**
Net profit	-	-	270	270
Other comprehensive income/(loss)	-	8	(11)	(3)
Total comprehensive income	**-**	**8**	**259**	**267**
Share-based payments	-	-	15	15
Share options settled	-	-	(89)	(89)
Sale of treasury shares	-	-	47	47
Tax related to items recognised directly in equity	-	-	(13)	(13)
Dividend paid	-	-	(51)	(51)
Dividend on treasury shares	-	-	2	2
Other transactions	**-**	**-**	**(89)**	**(89)**
Equity at 31 December 2016	**101**	**22**	**2,752**	**2,875**

Notes to the consolidated financial statements

1 Accounting policies

General

The consolidated financial statements for the period 1 January to 31 December 2017 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 with the exception of a change in presentation of special items in the income statement. As of 2017, Management has decided that such expenses and incomes shall be included in the relevant cost lines in the income statement and no longer be shown separately as special items, as Management finds this to give a more true and fair picture of the financial performance as these expenses are now presented as part of the function they belong to in the consolidated financial statements. Due to this, comparative figures have been reclassified to the relevant items in the income statement. The reported net profit, balance sheet, equity and earnings per share are not impacted by the change in presentation. In note 26 the effect of the reclassification is shown.

Effect of new financial reporting standards
The ALK Group has implemented all new and amended standards and interpretations (IFRIC) which are effective for the financial year 2017. This has not resulted in any changes to the accounting policies. A number of IFRS standards, amended standards and IFRIC interpretations which are effective on or after 1 January 2018 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 2017 and in the coming years.

IFRS 15 Revenue from Contracts with Customers is effective for financial years beginning on or after 1 January 2018. The ALK Group has considered the new revenue recognition requirements in relation to the nature of the activities in the ALK Group and determined that the standard will have limited impact on revenue recognition and measurement, while the level of disclosure is determined to increase. The ALK Group has decided not to pre-implement IFRS 15 for 2017.

IFRS 9 Financial instruments is effective for annual reports beginning on or after 1 January 2018. The ALK Group has considered the new standard according to the different financial instruments present in the ALK Group. The new standard results in an insignificant impact on the ALK Group in relation to provision for doubtful trade receivables. Further, this will lead to increased disclosures in the ALK Group's consolidated financial statements mainly for the areas of credit risks and provision for bad debt.

IFRS 16 Leases is effective for financial years beginning on or after 1 January 2019. The ALK Group has considered the new standard and have assessed the impact for the ALK Group. The assessment shows, based on present leasing agreements, that the new requirements will lead to recognition of right of use assets in the region of DKK 250-350 million as well as a minor positive effect on the profit/loss statement (EBITDA).

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

Basis of consolidation
The consolidated financial statements are prepared on the basis of 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. Non-current assets held for sale are, however, measured at fair value less expected costs to sell.

Restructuring costs are only recognised in the take-over 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 defrayed. 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

Notes to the consolidated financial statements

1 Accounting policies – continued

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 non-monetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

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

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

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

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

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

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

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

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

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

The share option agreement entitled the ALK Group to demand cash settlement of the options. Cash-settled share options are recognised as other liabilities and adjusted to fair value when the ALK Group has an obligation to settle in cash. The subsequent adjustment to fair value is recognised 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.

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. 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 national joint taxation with Lundbeckfonden (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.

Notes to the consolidated financial statements

1 Accounting policies – continued

Income statement

Revenue
Revenue from the sale of goods for resale and manufactured goods is recognised in the income statement if delivery and transfer of risk to the purchaser have taken place.

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 other revenues in connection with research and development partnerships. These revenues are recognised in accordance with the agreements and when it is probable that future economic benefits will flow to the ALK Group and these benefits can be measured reliably. Non-refundable payments that are not attributable to subsequent research and development activities are recognised when the related right is obtained, whereas payments attributable to subsequent research and development activities are recognised over the term of the activities. When combined contracts are entered into, the elements of the contracts are identified and assessed separately for accounting purposes.

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

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

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

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

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

Financial items
Financial items comprise interest receivable and interest payable, the interest element of finance 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 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 installment and direct salaries.

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

Individual minor development projects running for short-term periods which fullfill 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.

Notes to the consolidated financial statements

1 Accounting policies – continued

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.

The cost of assets held under finance leases is determined as the lower of the fair value of the assets and the present value of future minimum lease payments.

Interest expenses on loans to finance the manufacture of tangible assets are included in cost if they relate to the production period. Other borrowing costs are taken to 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, cf. 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, marketable securities are measured at cost, corresponding to fair value. They are subsequently measured at fair value at the balance sheet date, and changes to the fair value are recognised under net financials in the income statement.

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

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

Cost comprises raw materials, goods for resale, consumables 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, and subsequently they are measured at amortised cost. Receivables are written down for anticipated losses. A provision account is used for this purpose.

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

Notes to the consolidated financial statements

1 Accounting policies – continued

the plan, e.g. in the form of a fixed amount or a percentage of the salary at retirement.

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

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

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

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

Provisions
Provisions are recognised when, as a consequence of a past event during the financial year or previous years, the ALK Group has a legal or constructive obligation, and it is likely that settlement of the obligation will require an outflow of the company'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, equaling fair value of the proceeds received, and net of transaction costs incurred. Subsequently, mortgage debt is measured at amortised cost.

Lease liabilities
Lease liabilities regarding assets held under finance leases are recognised in the balance sheet as liabilities and measured at the inception of the lease at the lower of the fair value of the leased asset and the present value of future lease payments.

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.

Lease payments regarding operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

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

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

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 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, purchase of treasury shares, 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 70.

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 2017, Management considers the following 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 units to which the goodwill amounts have been allocated. The determination of the value in use requires estimates of the expected future cash flows of the cash-generating units and a reasonable discount rate. At 31 December 2017, the carrying amount of goodwill is DKK 461 million (2016: DKK 422 million).

Inventories
The valuation of inventories includes Management's assessment of the saleability of the finished goods, and the quality of raw materials to be used in production process.

If the expected sales price less any completion costs and costs to execute sales (net realizable value) of inventories is lower than the carrying amount, the inventories are written down to net realizable value.

Further, Work in progress and Manufactured goods and goods for resale are measured at cost including indirect production costs. The indirect production costs are assessed on an ongoing basis to ensure reliable measurement of employee costs, capacity utilization, cost drivers and other relevant factors. Changes in these parameters may have an impact on the gross margin and the overall valuation of Work in progress and Manufactured goods and goods for resale. The indirect production costs capitalized under inventories amounted to DKK 369 million at the end of 2017 (2016: DKK 255 million).

Tax
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. The ALK Group recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilized against future taxable income within a foreseeable future (3-5 years). This includes an assessment of the possibilities to utilize potential tax losses in the joint taxation scheme with Lundbeckfonden (Lundbeckfond Invest A/S) and based on forecasts with positive results for the coming years in relation to the joint taxation. At 31 December 2017, the value of deferred tax assets is DKK 562 million (2016: DKK 449 million) and the value of deferred tax liabilities is DKK 117 million (2016: DKK 124 million).

Notes to the consolidated financial statements

3 Segment information

Based on the internal reporting which Management uses to assess profit and allocation of resources, the ALK Group has identified one operating segment "Allergy treatment" which is in compliance 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	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
SCIT/SLIT-drops	1,627	1,881	246	281	44	28	1,917	2,190
SLIT-tablets	430	406	72	63	26	25	528	494
Other products and services	163	147	288	168	14	6	465	321
Total revenue	**2,220**	**2,434**	**606**	**512**	**84**	**59**	**2,910**	**3,005**
Sale of goods							2,899	2,931
Royalties							4	8
Milestone and upfront payments							-	38
Services							7	28
Total revenue							**2,910**	**3,005**

Of total revenue, DKK 57 million (2016: DKK 49 million) derived from Denmark.

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

	Europe		North America		International markets		Total	
Amounts in DKKm	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Non-current tangible and intangible assets	**1,601**	**1,755**	**722**	**626**	**7**	**10**	**2,330**	**2,391**

Of total non-current tangible and intangible assets, DKK 1,250 million are assets in Denmark (2016: DKK 1,411 million). The geographical information on assets is based on asset location.

Notes to the consolidated financial statements

4 Staff costs

Amounts in DKKm	2017	2016
Wages and salaries	1,211	1,075
Pensions, cf. note 17	96	96
Other social security costs, etc.	171	156
Share-based payments, cf. note 5	21	12
Total	**1,499**	**1,339**
Staff costs are allocated as follows:		
Cost of sales	566	483
Research and development expenses	228	203
Sales and marketing expenses	485	450
Administrative expenses	176	169
Included in the cost of assets	44	34
Total	**1,499**	**1,339**
Remuneration to Board of Management:*		
Salaries	18	12
Cash bonuses	6	6
Pensions	2	2
Termination benefits	2	13
Calculated costs regarding share-based payments, cf. note 5	10	2
Total	**38**	**35**
Remuneration to Board of Directors:**		
Remuneration to Board of Directors	4	5
Employees		
Average number (FTE)	2,213	2,010
Number year end (FTE)	2,302	2,123

* The total remuneration to the Board of Management includes a sign on fee for the new CEO, which was approved at the Annual General Meeting on 15 March 2017. The sign on fee had a total value of DKK 10.8 million and comprised a cash bonus of DKK 1.5 million and share based payments with a value of DKK 9.3 million.

** The total remuneration to the Board of Directors includes remuneration for participation in the Audit Committee DKK 350,000 (2016: DKK 350,000), the Remuneration Committee DKK 350,000 (2016: DKK 350,000) and the Scientific Committee DKK 150,000 (2016: DKK 150,000). In 2016, the total remuneration included a fee of DKK 0.9 million paid to the chairman of the Board of Directors due to increased operational duties.

5 Share-based payments

Amounts in DKKm	2017	2016
Cost of share-based payments	21	15
Total	**21**	**15**
Cost for the year regarding share-based payments are recognised as follows:		
Cost of sales	4	4
Research and development expenses	3	3
Sales and marketing expenses	3	4
Administrative expenses	11	1
Financial expenses	-	3
Total	**21**	**15**

In 2017 the total cost of share-based payments included a financial expense of DKK 0 million due to the exercise and cash settlement of share options plans (2016: DKK 3 million).

In 2017 an income of DKK 1 million related to adjustment in the number of conditional shares expected to vest is included in the cost of share based payments (2016: DKK 0 million)

Share option programme

The ALK Group has established share option plans for the Board of Management and a number of key employees as a part of a retention programme.

Each share option entitles the holder to acquire one existing B share of DKK 10 nominal value in the company. The exercise of options are conditional upon certain targets being met. The target achivement is met upon the holder of the option not having resigned at the time of exercise.

From the ordinary 2017 plan, the share option programme is further subject to the fulfilment of economic key indicators with a threshold below which there will be no payout, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the payout up to 100%.

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

Notes to the consolidated financial statements

5 Share-based payments – continued

Specification of outstanding options:

	Board of Management units	Other key personnel units	Total units	Weighted average exercise price DKK
2017				
Outstanding options at 1 January	43,795	102,775	146,570	743
Additions	45,321	10,900	56,221	944
Exercised	-	(17,775)	(17,775)	660
Expired	-	(1,000)	(1,000)	410
Cancellations	(19,416)	(4,315)	(23,731)	938
Outstanding at 31 December	**69,700**	**90,585**	**160,285**	**797**

At 31 December 2017, the total number of vested share options amounts to 65,000 units.

The Board of Directors decided for two trading windows in 2017 that share options were to be settled by cash settlement and a total of 12,575 share options were exercised and total cash payments amounted to DKK 5 million. For one trading window the Board of Directors decided that share options were settled by shares and a total of 5,200 options were exercised.

	Board of Management units	Other key personnel units	Total units	Weighted average exercise price DKK
2016				
Outstanding options at 1 January	129,925	170,525	300,450	470
Additions	8,720	18,400	27,120	1,087
Exercised	(82,150)	(79,975)	(162,125)	419
Expired	-	(500)	(500)	553
Cancellations	(12,700)	(5,675)	(18,375)	754
Outstanding at 31 December	**43,795**	**102,775**	**146,570**	**743**

At 31 December 2016, the total number of vested share options amounts to 43,525 units.

5 Share-based payments – continued

Outstanding options have the following characteristics:

	Options units	Weighted average exercise price DKK	Vested as per	Exercise period
2011 Plan	12,000	375	1 Nov 2014	1 Nov 2014-1 Nov 2018
2012 Plan	11,700	463	1 May 2015	1 May 2015-1 May 2019
2013 Plan	12,700	481	1 Mar 2016	1 Mar 2016-1 Mar 2020
2014 Plan	29,100	767	1 Mar 2017	1 Mar 2017-1 Mar 2021
2015 Plan	37,375	836	1 Mar 2018	1 Mar 2018-1 Mar 2022
2016 Plan	21,120	1,087	1 Mar 2019	1 Mar 2019-1 Mar 2023
2017 Sign on plan, CEO	17,068	924	1 Jan 2018	1 Jan 2018-1 Jan 2024
2017 Plan	19,222	1,013	1 Mar 2020	1 Mar 2020-1 Mar 2022
Outstanding at 31 December	**160,285**			

Notes to the consolidated financial statements

5 Share-based payments – continued

	2017	2016
Average remaining life of outstanding share options at year end (years)	3.7	4.3
Exercise prices for outstanding share options at year end (DKK)	370-1,127	361-1,127

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

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

	2017 Plan	**2017 Sign on plan, CEO**	2016 Plan
Average share price (DKK)	952	924	972
Expected exercise price (DKK)*	1,025	924	1,073
Expected volatility rate	31% p.a.	34% p.a.	30% p.a.
Expected option life	4 years	4 years	5 years
Expected dividend per share	5	5	5
Risk-free interest rate	-0.29% p.a.	-0.38% p.a.	-0.06% p.a.
Calculated fair value of granted share options (DKK)	192	230	208

* 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 (measured over 12 months).

5 Share-based payments – continued

Conditional share programme/performance share programme
The ALK Group has established conditional and, from 2017, performance share programmes for the Board of Management and a number of key employees as part of a retention programme. The final transfer of ownership of the shares takes place three years after the grant, provided that the ALK Group achieves the targets for vesting.

From 2017, the performance share programme is subject to the fulfilment of economic key indicators with a threshold below which there will be no payout, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the payout up to 100%.

	Board of Management units	Other key personnel units	Total units
2017			
Outstanding conditional and performance shares at 1 January	6,644	13,705	20,349
Additions	5,404	10,475	15,879
Settled	(2,340)	(3,498)	(5,838)
Cancellations	(4,382)	(3,107)	(7,489)
Outstanding conditional and performance shares at 31 December	**5,326**	**17,575**	**22,901**
2016			
Outstanding conditional shares at 1 January	11,870	18,305	30,175
Additions	1,864	3,875	5,739
Settled	(2,412)	(4,237)	(6,649)
Cancellations	(4,678)	(4,238)	(8,916)
Outstanding conditional shares at 31 December	**6,644**	**13,705**	**20,349**

The performance shares have been granted at the average market price of the share for the five trading days immediately preceding the date of grant. The performance shares have been granted at DKK 952 per share (2016: DKK 972 per share). Conditional shares and performance shares are considered sufficiently covered by treasury shares.

Notes to the consolidated financial statements

5 Share-based payments – continued

Outstanding conditional shares and performance shares have the following characteristics:

	Conditional shares units	Vested as per
2015 Plan (conditional shares)	6,503	1 Mar 2018
2016 Plan (conditional shares)	4,359	1 Mar 2019
2017 Plan (performance shares)	12,039	1 Mar 2020
Outstanding at 31 December	**22,901**	

Restricted Stock Units
In 2015, Board of Directors decided to grant Restricted Stock Units to all employees not included in the conditional shares plan. The programme granted 10 Restricted Stock Units to employees permanently employed at the ALK Group as of 31 March 2015. A Restricted Stock Unit (RSU) is a right to receive one share or the value of one share in ALK upon vesting.

The programme will run for three years and vesting will be no later than 31 March 2018.

A total of 18,150 RSU's were granted in 2015. As of 31 December 2017, outstanding RSU's were 14,180 (2016: 15,040) and are considered sufficiently covered by treasury shares. The costs of the programme is calculated based on a share price of DKK 746 and amounts in total to DKK 11 million (2016: DKK 11 million), which are expensed over the vesting period.

6 Depreciation, amortisation and impairment

Amounts in DKKm	**2017**	2016
Depreciation, amortisation and impairment are allocated as follows:		
Cost of sales	272	105
Research and development expenses	7	8
Sales and marketing expenses	27	23
Administrative expenses	27	27
Total	**333**	**163**

6 Depreciation, amortisation and impairment – continued

As a consequence of the updated strategy announced in December 2017, the ALK Group has discontinued certain non-strategic development projects as well as scrapped production equipment. The impairment amounts to DKK 152 million in 2017, of which DKK 85 million relate to tangible assets and DKK 67 million to intangible assets. The impairment is based on an individual assessment of the individual asset's net recoverable amount. As the ALK Group believes there is no recoverable value for some of the assets, the full carrying value of the assets has been impaired. For the assets where the ALK Group 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.

In the income statement for 2017 the impairment of DKK 152 million is recognised as research and development expenses (DKK 36 million) and as cost of sales (DKK 116 million).

7 Financial income and expenses

Amounts in DKKm	**2017**	2016
Interest income	10	4
Financial income from financial assets not measured at fair value in the income statement	10	4
Interest income on marketable securities	7	9
Currency gains, net	-	9
Total financial income	**17**	**22**
Interest expenses	16	14
Financial expenses relating to financial liabilities not measured at fair value in the income statement	16	14
Fair value adjustment on marketable securities	7	-
Currency losses, net	36	-
Total financial expenses	**59**	**14**

Notes to the consolidated financial statements

8 Tax on profit/(loss) for the year

Amounts in DKKm	2017	2016
Current income tax	144	258
Adjustment of deferred tax	(109)	(53)
Prior year adjustments	1	12
Total	**36**	**217**
Profit/(loss) before tax	(122)	487
Income tax, tax rate of 22% (2016: 22%)	(27)	107
Effect of deviation of foreign subsidiaries' tax rate relative to Danish tax rate	59	94
Non-taxable income	(4)	(1)
Non-deductible expenses	14	11
Adjustment of deferred tax due to coming year change of tax rate	1	-
Other taxes and adjustments	(8)	(6)
Prior year adjustments	1	12
Tax on profit/(loss) for the year	**36**	**217**

Tax related to equity and other comprehensive income comprises DKK 6 million (2016:DKK 6 million).

9 Adjustments for non-cash items

Amounts in DKKm	2017	2016
Tax on profit/(loss)	36	217
Financial income and expenses	42	(11)
Share-based payments	21	15
Reversal of accounting gain on sale of non-current assets	(2)	(7)
Depreciation, amortisation and impairment	333	163
Other adjustments	(18)	31
Total	**412**	**408**

10 Acquisition of companies and operations

On 3 January 2017, the ALK Group acquired the operating assets in Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC for a total cash consideration of USD 20 million of which USD 6.6 million is a contingent consideration, depending on meeting certain requirements by the US Food and Drug Administration's Center for Biologics Evaluation and Research (CBER). The two companies had previously been under the same private ownership and produce allergen extracts and other material used in allergy immunotherapy treatments. Allergy Laboratory of Oklahoma, Inc. and Crystal Laboratory LLC have a combined staff of around 100.

The integration of the activities is ongoing.

Consolidated fair values of acquisitions:

Amounts in DKKm	2017
Customer relations	27
Property, plant and equipment	13
Inventories	50
Cash and bank debt	-
Liabilities	-
Acquired net assets	**90**
Goodwill	50
Acquisition cost	**140**
Contingent considerations and deferred payments	46
Acquired cash and bank debt	-
Cash acquisition cost	**94**

The allocation of fair values is final. The transaction is on a debt and cash free basis. The contingent consideration is limited to DKK 46 million and is expected to be fully paid.

Recognised revenue related to the acquisition amounts to DKK 117 million in 2017. In 2017, the acquisition had a minor positive effect on earnings for the ALK Group.

The transaction costs related to the acquisition amount to approximately DKK 1 million.

Goodwill relates to the expected synergies between the US entities and to the ALK Group gaining control of a critical sourcing supply. Goodwill is tax deductable.

No companies or operations were acquired in 2016.

Notes to the consolidated financial statements

11 Intangible assets

Amounts in DKKm	Goodwill	Software	Patents, trademarks and rights	Other	Total
2017					
Cost beginning of year	444	337	236	167	1,184
Currency adjustments	(10)	1	(7)	2	(14)
Additions	-	4	1	22	27
Acquisitions of companies and operations	50	-	27	-	77
Disposals	-	(2)	(2)	-	(4)
Transfer to/from other groups	-	7	-	(5)	2
Cost year end	**484**	**347**	**255**	**186**	**1,272**
Amortisation and impairment beginning of year	22	232	132	34	420
Currency adjustments	1	(7)	-	(1)	(7)
Amortisation for the year	-	15	23	6	44
Amortisation on disposals	-	(2)	(2)	-	(4)
Impairment for the year, cf. note 6	-	-	-	67	67
Amortisation and impairment year end	**23**	**238**	**153**	**106**	**520**
Carrying amount year end	**461**	**109**	**102**	**80**	**752**
2016					
Cost beginning of year	444	314	233	147	1,138
Currency adjustments	-	2	3	1	6
Additions	-	6	-	40	46
Disposals	-	(6)	-	-	(6)
Transfer to/from other groups	-	21	-	(21)	-
Cost year end	**444**	**337**	**236**	**167**	**1,184**
Amortisation and impairment beginning of year	21	223	109	26	379
Currency adjustments	1	-	1	1	3
Amortisation for the year	-	15	22	7	44
Amortisation on disposals	-	(6)	0	-	(6)
Amortisation and impairment year end	**22**	**232**	**132**	**34**	**420**
Carrying amount year end	**422**	**105**	**104**	**133**	**764**

11 Intangible assets – continued

Goodwill
Goodwill has been subject to an impairment test, which has been submitted to the Audit Committee for subsequent approval by the Board of Directors. The impairment test performed in 2017 revealed no need for impairment of goodwill.

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

In the calculation of the value in use of 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 updated 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 strategy period (2018-2025), the cash flows in the most recent period have been extrapolated adjusted for a growth factor of 1.5% during the terminal period.

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

The discount rate used is pre-tax 11% and after tax 8%, (2016: pre-tax 11% and after tax 8%).

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

The additions for the year include capitalised costs for software development in progress of DKK 18 million (2016: DKK 32 million). The carrying amount of these projects at 31 December 2017 is DKK 60 million (2016: DKK 65 million).

Notes to the consolidated financial statements

12 Property, plant and equipment

Amounts in DKKm	Land and buildings*	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
2017					
Cost beginning of year	1,153	812	255	389	2,609
Currency adjustments	(38)	(29)	(8)	(21)	(96)
Additions	12	15	8	205	240
Acquisitions of companies and operations	-	9	4	-	13
Disposals	(7)	(16)	(8)	-	(31)
Transfer to/from other groups	42	39	8	(91)	(2)
Cost year end	**1,162**	**830**	**259**	**482**	**2,733**
Depreciation and impairment beginning of year	379	400	203	-	982
Currency adjustments	(9)	(9)	(5)	-	(23)
Depreciation for the year	45	76	16	-	137
Depreciation of disposals	(3)	(15)	(8)	-	(26)
Impairment for the year, cf. note 6	-	-	-	85	85
Depreciation and impairment year end	**412**	**452**	**206**	**85**	**1,155**
Carrying amount year end	**750**	**378**	**53**	**397**	**1,578**
of which financing costs					-
of which assets held under finance leases					86
Value of land and buildings subject to mortgages					230

* Land and buildings in Denmark include buildings on land leased from Scion DTU A/S, Hørsholm. The lease period for this land is unlimited.

12 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
2016					
Cost beginning of year	1,129	776	257	322	2,484
Currency adjustments	9	7	1	2	19
Additions	3	16	6	154	179
Disposals	(36)	(24)	(13)	-	(73)
Transfer to/from other groups	48	37	4	(89)	-
Cost year end	**1,153**	**812**	**255**	**389**	**2,609**
Depreciation and impairment beginning of year	358	357	198	-	913
Currency adjustments	4	3	2	-	9
Depreciation for the year	40	63	16	-	119
Depreciation of disposals	(23)	(23)	(13)	-	(59)
Depreciation and impairment year end	**379**	**400**	**203**	**-**	**982**
Carrying amount year end	**774**	**412**	**52**	**389**	**1,627**
of which financing costs					-
of which assets held under finance leases					93
Value of land and buildings subject to mortgages					240

Notes to the consolidated financial statements

13 Deferred tax

Amounts in DKKm	Intangible assets	Tangible assets	Current assets	Liabilities	Tax losses carried forward	Total
2017						
Carrying amount beginning of year	95	(26)	84	8	164	325
Adjustment to prior years' deferred tax	5	(14)	10	(4)	9	6
Currency adjustments	-	1	(3)	3	(2)	(1)
Adjustment of deferred tax due to coming year change of tax rate	(2)	7	(11)	5	-	(1)
Recognised in the income statement, net	(25)	(8)	40	14	89	110
Recognised in other comprehensive income, net	-	-	-	9	-	9
Recognised in equity, net	-	-	-	(3)	-	(3)
Carrying amount year end	**73**	**(40)**	**120**	**32**	**260**	**445**
2016						
Carrying amount beginning of year	85	(33)	64	89	73	278
Adjustment to prior years' deferred tax	40	8	30	(76)	(2)	-
Currency adjustments	-	-	-	2	(1)	1
Recognised in the income statement, net	(30)	(1)	(16)	6	94	53
Recognised in other comprehensive income, net	-	-	6	-	-	6
Recognised in equity, net	-	-	-	(13)	-	(13)
Carrying amount year end	**95**	**(26)**	**84**	**8**	**164**	**325**

Deferred tax at 31 December 2017 consists of deferred tax assets of DKK 466 million (2016: DKK 449 million) and deferred tax liabilities of DKK 21 million (2016: DKK 124 million).

The ALK group recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilized against future taxable income within a foreseeable future (3-5 years). See also note 2.

ALK-Abelló A/S is included in a national joint taxation with Lundbeckfonden (Lundbeckfond Invest A/S) and its Danish subsidiaries.

Notes to the consolidated financial statements

14 Inventories

Amounts in DKKm	2017	2016
Raw materials and consumables	163	179
Work in progress	342	249
Manufactured goods and goods for resale	370	248
Total	**875**	**676**
Amount of write-down of inventories during the year	39	18
Amount of reversal of write-down of inventories during the year	5	2

The total cost of materials included in cost of sales amounted to DKK 296 million (2016: DKK 273 million).

15 Trade receivables

Amounts in DKKm	2017	2016
Trade receivables (gross)	338	307
Provision for doubtful trade receivables:		
Balance beginning of year	12	9
Change in provision during the year	1	4
Realised losses during the year	(1)	(1)
Provision for doubtful trade receivables year end	**12**	**12**
Trade receivables (net)	**326**	**295**
Provision for doubtful trade receivables is based on an individual assesment of the receivables.		
Trade receivables (net) can be specified as follows:		
Not due	253	195
Age of past due trade receivables, not impaired:		
Between 1 and 179 days	69	90
Between 180 and 360 days	2	6
More than 360 days	2	4
Trade receivables (net)	**326**	**295**

The carrying amount is equivalent to the fair value of the assets.

Notes to the consolidated financial statements

16 Share capital and earnings per share

Amounts in DKKm	2017	2016
Share capital		
The share capital consists of:		
A shares	9	9
AA shares	1	-
B shares	101	92
Total nominal value	**111**	**101**
Each A and AA share carries 10 votes, whereas each B share carries 1 vote.		
Treasury shares		
Treasury shares beginning of year (B-shares), units	296,844	361,051
Purchase of treasury shares, units	-	-
Sale of treasury shares, units	(11,038)	(64,207)
Treasury shares year end (B-shares), units	**285,806**	**296,844**
Proportion of share capital year end	2.6%	2.9%
Nominal value year end	2.9	3.0
Market value year end	211	273
Earnings per share		
The calculation of earnings per share is based on the following:		
Net profit/ (loss)	(158)	270
Number in units:		
Average number of issued shares	10,212,763	10,128,360
Average number of treasury shares	(291,503)	(312,003)
Average number of shares used for calculation of earnings per share	**9,921,260**	**9,816,357**
Average dilutive effect of outstanding share options	41,490	97,078
Average number of shares used for calculation of diluted earnings per share	**9,962,750**	**9,913,435**
Earnings per share (EPS)	**(15.93)**	**27.51**
Earnings per share (DEPS), diluted	**(15.86)**	**27.24**

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 payments.

At year end 2017 the amount of A shares was 920,760 (2016: 920,760), AA shares 92,076 (2016: 0) and B shares 10,128,360 (2016: 9,207,600). All shares have nominal value of DKK 10.

17 Pensions and similar liabilities

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

In defined contribution plans, the employer 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.

In defined benefit plans the employer is obliged to pay a certain payment when a pre-agreed event occurs. The employer bears the risks regarding the future development in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee. The ALK Group has defined benefit plans in Germany and Switzerland. The defined benefit plan in The Netherlands has curtailed and a defined contribution plan has been established. The outstanding payments related to this plan are recognized in other payables at 31 December 2017.

Amounts in DKKm	2017	2016
Costs related to defined contribution plans	91	84
Costs related to defined benefit plans	5	12
Total	**96**	**96**
Present value of funded pension obligations	14	75
Fair value of plan assets	(10)	(66)
Funded pension obligations, net	**4**	**9**
Present value of unfunded pension obligations	177	189
Pension obligations	**181**	**198**
Anniversary liabilities	11	10
Pension related to bonus	26	24
Indemnity fund	1	1
Other liabilities	1	1
Pension obligations and similar liabilities, year end	**220**	**234**

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

The weighted average duration of the pension obligations is 20.6 years (2016: 21.8 years).

Notes to the consolidated financial statements

17 Pensions and similar liabilities – continued

Amounts in DKKm	2017	2016
The principal assumptions used for the purposes of the actuarial valuations were as follows		
Discount rate range of 0.5% - 1.9% (weighted average rate)	1.9%	1.7%
Expected future rate of salary increase in range of 1% - 3% (weighted average rate)	3.0%	2.9%
Assumed life expectations on retirement age for current pensioners (years)*:		
Males	20.3	20.3
Females	24.0	24.0
Assumed life expectations on retirement age for current employees (future pensioners) (years)*:		
Males	22.0	22.0
Females	26.9	26.8
Sensitivity analysis:		
Sensitivity of the gross pension obligation to changes in the key assumptions		
Sensitivity related to discount rate, effect in range of 0.25% - 1% increase**	(33)	(40)
Sensitivity related to discount rate, effect in range of 0.25% - 1% decrease	43	52
Sensitivity related to salary, effect in range of 0.25% - 0.5% increase	4	5
Sensitivity related to salary, effect in range of 0.25% - 0.5% decrease	(4)	(5)
Sensitivity related to life expectancy, effect if +1 year	7	6
Sensitivity related to life expectancy, effect if -1 year*	(7)	(6)

* Life expectancy is based on national statistics for mortality.
** The analysis is based on several actuarial reports with different rates, therefore the effects are shown in ranges.

Movements in the present value of the defined benefit obligation in the current year were as follows		
Opening defined benefit obligation	75	71
Sale of companies and operations	-	(7)
Current service costs	4	3
Interest costs	1	1
Actuarial gains / losses from changes in financial assumptions	(1)	9
Actuarial gains / losses arising from experience adjustments	-	(1)
Contribution from plan participants	1	1
Benefits paid	3	-
Currency translation adjustment	-	(2)
Curtailment of plan*	(69)	-
Closing defined benefit obligation	**14**	**75**

17 Pensions and similar liabilities – continued

Amounts in DKKm	2017	2016
Movements in the fair value of the plan assets in the current year were as follows		
Opening fair value of plan assets	66	63
Sale of companies and operations	-	(7)
Interest income	1	1
Return on plan assets	-	7
Contribution from plan participants	3	2
Benefits paid	3	-
Currency translation adjustment	(1)	-
Curtailment of plan*	(62)	-
Closing fair value of plan assets	**10**	**66**
Movements in present value of unfunded pension obligations in the current year were as follows		
Opening present value of unfunded pension obligations	189	165
Current service costs	5	5
Interest costs	3	4
Actuarial gains / losses from changes in financial assumptions	(5)	19
Actuarial gains / losses arising from experience adjustments	(10)	(2)
Actuarial gains / losses arising from demographic adjustments	(2)	-
Benefits paid	(1)	(1)
Currency translation adjustment	(2)	(1)
Closing present value of unfunded pension obligations	**177**	**189**
Amount recognised as staff expenses in the income statement		
Current service costs	9	8
Net interest expense	3	4
Past service cost related to curtailment of plan*	(7)	-
Total	**5**	**12**
Amount recognised in comprehensive income in respect of defined benefit plans		
Actuarial (gains) /losses	(18)	17
Total	**(18)**	**17**

* Curtailment of plan in The Netherlands.

The expected contribution for 2018 for the defined benefit plans are DKK 9 million (2017: DKK 13 million). The calculation of the pension liability is prepared by external independent actuary agents. The latest actuarial calculation related to the defined benefit plans was made at 31 December 2017.

Notes to the consolidated financial statements

18 Mortgage debt, bank loans and financial loans

	Carrying amount		Fair value	
Amounts in DKKm	**2017**	2016	**2017**	2016
Mortgage debt credit institutions secured by real property				
Mortgage debt is due as follows:				
Within 1 year	17	17	17	17
From 1-5 years	70	69	73	70
After 5 years	223	241	232	245
Total	**310**	**327**	**322**	**332**
Bank loans and financial loans				
Bank loans and financial loans are due as follows:				
Within 1 year	-	-	-	-
From 1-5 years	448	2	448	2
After 5 years	-	446	-	446
Total	**448**	**448**	**448**	**448**
Mortgage debt, bank loans and financial loans are recognised accordingly:				
Non-current liabilities	741	758		
Current liabilities	17	17		

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

19 Other provisions

Amounts in DKKm	**2017**	2016
Other provisions beginning of year	37	28
Provisions made during the year	53	32
Used during the year	(15)	(22)
Reversals during the year	(16)	(1)
Other provisions, year end	**59**	**37**
Other provisions are recognised as follows:		
Non-current liabilities	20	1
Current liabilities	39	36
Other provisions, year end	**59**	**37**

The majority of the provisions is the contingent consideration for the acquisition described in note 10.

20 Changes in working capital

Amounts in DKKm	**2017**	2016
Change in inventories	(179)	(152)
Change in receivables	(109)	(24)
Change in short-term payables	6	89
Cash flow from changes in working capital	**(282)**	**(87)**

21 Contingent liabilities and commitments

Contingent liabilities

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

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

Contractual obligations

Liabilities relating to research and development projects are estimated to DKK 5 million at 31 December 2017 (31 December 2016: DKK 24 million).

Joint taxation scheme

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

Commitments

Land and buildings provided as security vis-à-vis for mortgage debt amount to DKK 240 million (2016: DKK 240 million) out of mortgage debt of DKK 310 million (2016: DKK 327 million).

Notes to the consolidated financial statements

22 Operating lease liabilities

Amounts in DKKm	2017	2016
Lease payments recognised in the income statement	68	43
Total minimum future lease payments:		
Within 1 year	59	52
From 1-5 years	172	160
After 5 years	46	43
Total	**277**	**255**

23 Finance lease liabilities

Amounts in DKKm	2017	2016
Finance lease liabilities are due as follows:		
Within 1 year	-	1
From 1-5 years	1	2
After 5 years	-	-
Total	**1**	**3**
Amortisation premium for future expensing	-	(1)
Present value of finance lease liabilities	**1**	**2**

Finance lease concerns lease of other fixtures and equipment.

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

Financial risk management policy

As a result of operations, investments and financing, the ALK Group is exposed to exchange and interest rate changes. For further information about exchange rate, interest rate and credit exposure see page 27-29. 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 exchange rate, interest rate, liquity risks and credit risk in connection with its commercial activities.

Capital structure

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

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

Foreign exchange risk

Foreign exchange risk arises due to imbalances between revenue and expenses in each individual currency. The ALK Group mainly hedges its foreign exchange rate exposure through matching of payments received and paid in the same currency and through forward exchange rate contracts and currency options. No forward exchange rate contracts or similar derivatives have been used in 2017 or 2016.

Sensitivities in 2017 in the event of a 10% increase in exchange rates

Amounts in DKKm	Revenue	EBITDA	Equity
31 December 2017			
USD	approx. +60	approx. -5	approx. +30
31 December 2016			
USD	approx. +60	approx. +5	approx. +35

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

Notes to the consolidated financial statements

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

Net positions

Amounts in DKKm	Cash and marketable securities	Receivables	Liabilities	Amount hedged	Net position
31 December 2017					
DKK	550	70	(527)	0	93
USD	32	77	(128)	0	(19)
EUR	74	264	(957)	0	(619)
GBP	8	9	(7)	0	10
SEK	10	15	(8)	0	17
Other	37	61	(41)	0	57
Total	**711**	**496**	**(1,668)**	**0**	**(461)**
31 December 2016					
DKK	471	70	(611)	-	(70)
USD	148	64	(91)	-	121
EUR	138	227	(1,178)	-	(813)
GBP	10	9	(18)	-	1
SEK	23	3	(10)	-	16
Other	50	44	(16)	-	78
Total	**840**	**417**	**(1,924)**	**-**	**(667)**

The ALK Group may hedge exchange rate exposure regarding future sales and purchase of goods in the coming six months by means of forward exchange contracts and currency options in accordance with the ALK Group's policy.

The ALK Group has no open exchange rate hedging contracts as of 31 December 2017 or 31 December 2016.

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 deposits, government bonds or ultra-liquid mortgage bonds in accordance with the treasury policy.

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

Liquidity exposure

Amounts in DKKm	Carrying amount	Total cash flow*	Revaluation/payment date Within 1 year	From 1-5 years	After 5 years
31 December 2017					
Mortgage debt, bank loans and financial loans	758	830	28	560	242
Trade payables	121	121	121	-	-
Other financial liabilities	489	489	489	-	-
Financial liabilities	**1,368**	**1,440**	**638**	**560**	**242**
31 December 2016					
Mortgage debt, bank loans and financial loans	775	868	28	114	726
Trade payables	132	132	132	-	-
Other financial liabilities	622	622	622	-	-
Financial liabilities	**1,529**	**1,622**	**782**	**114**	**726**

* Total cash flow includes interest

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.

Notes to the consolidated financial statements

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

Interest rate exposure

Amounts in DKKm	Carrying amount	Currency	Expiry date	Fixed/ floating	Effective interest rate
31 December 2017					
Cash and marketable securities	711	Various		Floating	(1.7)-3.2
Interest-bearing assets	**711**				
Mortgage debt	310	DKK	2035	Fixed/floating	1.2
Leasing debt	1	EUR, USD	2021	Fixed	4.2-6.6
Other bank loans and financial loans	447	EUR	2022	Fixed	1.5
Interest-bearing liabilities	**758**	**-**	**-**	**-**	**-**
31 December 2016					
Cash and marketable securities	840	Various		Floating	(1.4)-2.9
Interest-bearing assets	**840**				
Mortgage debt	327	DKK	2035	Fixed/floating	1.2
Leasing debt	2	EUR, USD	2017-2021	Fixed	4.0-6.0
Other bank loans and financial loans	446	EUR	2022	Fixed	1.5
Interest-bearing liabilities	**775**	**-**	**-**	**-**	**-**

An increase in the interest rate of 1 percentage point on mortgage debt, bank loans and financial loans would reduce net profit and equity by less than DKK 1 million. An increase in the interest of 1 percentage point on cash and marketable securities would decrease net profit and equity by approximately DKK 4 million, as the value of marketable securities would deteriorate.

Credit risk
The ALK Group's primary credit exposure is related to trade receivables, cash and marketable securities. 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.

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.

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

Amounts in DKKm	**2017**	2016
Categories of financial instruments		
Marketable securities	549	548
Financial assets measured at fair value	**549**	**548**
Receivables from affiliates	25	22
Securities and receivables	7	8
Trade receivables	326	295
Other receivables	73	66
Cash	162	292
Loans and receivables	**593**	**683**
Mortgage debt	310	327
Bank loans and financial loans	448	448
Trade payables	121	132
Other payables	483	455
Financial liabilities measured at amortized cost	**1,362**	**1,362**

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

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

There are no financial derivatives used in 2017 or 2016.

Notes to the consolidated financial statements

25 Fees to the ALK Group's auditors

Amounts in DKKm	2017	2016
Fees to the auditors, Deloitte, appointed at the annual general meeting:		
Audit services	3	3
Tax advisory services	1	2
Other services	1	1
Total	**5**	**6**

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the ALK Group amounts to DKK 2 million and consists of review of tax returns, review of other tax related matters and other general financial accounting matters.

26 Change in accounting policies

Amounts in DKKm	Comparative figures 2016	Adjust-ments	Previously reported 2016
Revenue	3,005	-	3,005
Cost of sales	1,008	(14)	994
Gross profit	**1,997**	**(14)**	**2,011**
Research and development expenses	385	-	385
Sales and marketing expenses	910	(17)	893
Administrative expenses	230	(32)	198
Other operating income	7	-	7
Operating profit (EBIT)	**479**	**(63)**	**542**
Special items	-	63	(63)
Financial items, net	8	-	8
Profit before tax (EBT)	**487**	**-**	**487**

See note 1 for more information about change in accounting policies.

27 Related parties

Related party exercising control

Party exercising control is ALK-Abelló A/S' majority shareholder, Lundbeckfonden (Lundbeckfond Invest A/S).

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

Transactions and balances

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

- ALK-Abelló A/S has paid dividends to Lundbeckfond Invest A/S in 2017 constituting DKK 20 million (2016: DKK 20 million)
- ALK-Abelló A/S has received DKK 2 million (2016: DKK 22 million) concerning outstanding company tax from Lundbeckfond Invest A/S
- Receivables from affiliates in ALK-Abelló A/S relate to outstanding company tax of DKK 25 million (2016: DKK 22 million)
- Lundbeckfond Invest A/S has participated in the emission of new shares in ALK-Abelló A/S in 2017. Lundbeckfond Invest A/S acquired 407,964 number of shares, totalling DKK 281 million.

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

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 6 February 2018.

Notes to the consolidated financial statements

30 List of companies in the ALK Group

31 December 2017 (wholly owned unless otherwise stated). Nominal capital in 1,000.

Denmark

ALK-Abelló A/S (parent) CVR no. 63 71 79 16 Hørsholm	DKK 111,412
ALK-Abelló Nordic A/S CVR no. 31 50 12 96 Hørsholm	DKK 1,000

Sweden

ALK-Abelló Nordic A/S (branch)
Kungsbacka

Norway

ALK-Abelló Nordic A/S (branch)
Oslo

Finland

ALK-Abelló Nordic A/S (branch)
Helsinki

United Kingdom

ALK-Abelló Ltd. Reading	GBP 1

France

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

Germany

ALK-Abelló Arzneimittel GmbH Hamburg	EUR 1,790

Austria

ALK-Abelló Allergie-Service GmbH Linz	EUR 73

Switzerland

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

Turkey

ALK ilaç ve Alerji Ürünleri Ticaret Anonim Şirketi Istanbul	TRY 50

Netherlands

ALK-Abelló B.V. Nieuwegein	EUR 23

Spain

ALK-Abelló S.A. Madrid	EUR 4,671

Italy

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

Poland

ALK-Abelló sp. z o.o Krakow	PLN 325

USA

ALK-Abelló, Inc. Austin, Texas	USD 50
ALK-Abelló, Source Materials, Inc. Spring Mills, Pennsylvania	USD 5
OKC Allergy Supplies Inc. Oklahoma City, Oklahoma Wholly owned by ALK-Abelló Inc.	USD 1
OKC Crystal Laboratory Inc. Oklahoma City, Oklahoma Wholly owned by ALK-Abelló, Source Materials, Inc.	USD 1

Canada

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

China

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

Slovakia

ALK Slovakia s.r.o. Bratislava	EUR 5

Czech Republic

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

Jordan

ALK-Abelló A/S (Branch)
Amman

Definitions

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

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

Alternative Performance Measures

Amounts in DKKm	**2017**	2016
EBITDA reconciliation to net profit		
Net profit for the year	(158)	270
Tax	36	217
Financial income	(17)	(22)
Financial expenses	59	14
Depreciation, amortisation and impairment	333	163
EBITDA	**253**	**642**
Net asset value		
Equity	3.290	2.875
Net asset value	**3.290**	**2.875**
Invested capital reconciliation		
Intangible assets	752	764
Tangible assets	1.578	1.627
Inventories	875	676
Trade receivables	326	295
Receivables from affiliates	25	22
Income tax receivables	65	26
Other receivables	73	66
Prepayments	80	26
Pensions and similar liabilities	(220)	(234)
Other provisions (non-current)	(20)	(1)
Deferred tax liabilities	(21)	(124)
Trade payables	(121)	(132)
Income taxes	(6)	(167)
Other provisions (current)	(39)	(36)
Other payables	(483)	(455)
Invested capital	**2.864**	**2.353**

Contents of the parent company financial statements

Parent company financial statements

Notes

Income statement

Amounts in DKKm	Note	**2017**	2016
Revenue	2	1,088	961
Cost of sales	3	817	572
Gross profit		**271**	**389**
Research and development expenses	3	378	370
Sales and marketing expenses	3	251	255
Administrative expenses	3,15	94	93
Operating profit / (loss) (EBIT)		**(452)**	**(329)**
Income from investments in subsidiaries	9	18	23
Financial income	4	43	41
Financial expenses	4	118	12
Profit / (loss) before tax (EBT)		**(509)**	**(277)**
Tax on profit	5	(118)	(67)
Net profit / (loss)	16	**(391)**	**(210)**

Balance sheet

Amounts in DKKm	Note	31 Dec. 2017	31 Dec. 2016
Assets			
Non-current assets			
Intangible assets			
Goodwill	6	643	730
Intangible assets	6	167	187
		810	**917**
Tangible assets			
Land and buildings	7	318	333
Plant and machinery	7	207	227
Other fixtures and equipment	7	16	11
Property, plant and equipment in progress	7	158	198
		699	**769**
Other non-current assets			
Investment in subsidiaries	9	729	729
Receivables from affiliates		1,084	958
Securities and receivables		5	5
Deferred tax assets	8	156	46
		1,974	**1,738**
Total non-current assets		**3,483**	**3,424**
Current assets			
Inventories	10	351	287
Trade receivables		4	2
Receivables from affiliates		541	250
Other receivables		49	37
Prepayments		38	5
		983	**581**
Cash		58	87
Marketable securities		549	548
Total cash and marketable securities		**607**	**635**
Total current assets		**1,590**	**1,216**
Total assets		**5,073**	**4,640**

Amounts in DKKm	Note	31 Dec. 2017	31 Dec. 2016
Equity and liabilities			
Equity			
Share capital		111	101
Retained earnings		2,269	1,959
Capitalized development costs		6	8
Proposed dividend		-	51
Total equity		**2,386**	**2,119**
Liabilities			
Mortgage debt	11	293	310
Bank loans and financial loans	11	447	446
Non-current liabilities		**740**	**756**
Mortgage debt	11	17	17
Trade payables		47	64
Payables to affiliates		1,685	1,513
Other payables		198	171
Current liabilities		**1,947**	**1,765**
Total liabilities		**2,687**	**2,521**
Total equity and liabilities		**5,073**	**4,640**

Statement of changes in equity

Amounts in DKKm	Share capital	Retained earnings	Reserve for capitalised development costs	Proposed dividend	Total equity
2017					
Equity at 1 January 2017	**101**	**1,959**	**8**	**51**	**2,119**
Appropriated from net profit	-	(391)	-	-	(391)
Share-based payments	-	21	-	-	21
Share options settled	-	(5)	-	-	(5)
Sale of treasury shares	-	3	-	-	3
Dividend paid	-	-	-	(51)	(51)
Dividend on treasury shares	-	2	-	-	2
Transfer to legal reserves	-	2	(2)	-	-
Emission of shares (proceeds)	10	689	-	-	699
Emission of shares (costs)	-	(11)	-	-	(11)
Other transactions	**10**	**310**	**(2)**	**(51)**	**267**
Equity at 31 December 2017	**111**	**2,269**	**6**	**–**	**2,386**

Please refer to note 16 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 2017 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.

The accounting policies are unchanged from last year. 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.

requires a reserve for capitalization of development costs net of tax, which has been disclosed in the statement of equity. In accordance with the transition provisions of the Danish Financial Statement Act, the reserve is established in relation to items capitalized from 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 Segment information

Amounts in DKKm	**2017**	2016
Sale of goods	1,077	887
Royalties	4	8
Milestone and upfront payments	-	38
Services	7	28
Total revenue	**1,088**	**961**
Europe	1,007	874
North America	49	63
International Markets	32	24
Total revenue	**1,088**	**961**

3 Staff costs

Amounts in DKKm	**2017**	2016
Wages and salaries	559	498
Pensions	51	46
Other social security costs, etc.	23	22
Share-based payments	18	9
Total	**651**	**575**
Staff costs are allocated as follows:		
Cost of sales	285	246
Research and development expenses	198	184
Sales and marketing expenses	48	39
Administrative expenses	92	87
Included in the cost of assets	28	19
Total	**651**	**575**

Remuneration to Board of Management and Board of Directors:
See note 4 and 5 in the consolidated financial statements

Employees		
Average number (FTE)	775	743
Number year end (FTE)	787	762

Notes to the parent company financial statements

4 Financial income and expenses

Amounts in DKKm	2017	2016
Interest on receivables from affiliates	26	14
Other interest income	17	13
Currency gain, net	-	14
Total financial income	**43**	**41**
Other interest expenses	18	12
Currency loss, net	100	-
Total financial expenses	**118**	**12**

5 Tax on profit/(loss) for the year

Amounts in DKKm	2017	2016
Current income tax	(25)	(22)
Adjustment of deferred tax	(90)	(59)
Prior year adjustments	(3)	14
Total	**(118)**	**(67)**
Profit/(loss) before tax	(509)	(277)
Income tax, tax rate of 22%	(112)	(61)
Non-taxable income	(6)	(20)
Non-deductible expenses	3	-
Prior year adjustments	(3)	14
Other taxes and adjustments	-	-
Tax on profit/(loss) for the year	**(118)**	**(67)**

6 Intangible assets

Amounts in DKKm	Goodwill*	Patents, trademarks and rights	Develop-ment cost**	Software and assets in progress	2017	2016
Cost beginning of year	867	90	12	285	1,254	1,212
Additions	-	-	6	34	40	47
Disposals	-	(1)	-	(2)	(3)	(5)
Transfer to/from other groups	-	-	3	(3)	-	-
Cost year end	**867**	**89**	**21**	**314**	**1,291**	**1,254**
Amortisation and impairment beginning of year	137	32	1	167	337	235
Amortisation for the year	87	7	3	9	106	107
Amortisation on disposals	-	(1)	-	(2)	(3)	(5)
Impairment for the year***	-	-	-	41	41	-
Amortisation and impairment year end	**224**	**38**	**4**	**215**	**481**	**337**
Carrying amount year end	**643**	**51**	**17**	**99**	**810**	**917**

* Goodwill arises from the transfer of all adrenaline activities from the ALK Group's Swiss subsidiary to the Danish parent company in 2015.

** The capitalized development cost relates to development of medical devices in relation to allergy treatment. The ALK Group expects that the medical devices will generate ecomomic benefits in the coming years.

*** See note 6 in the consolidated financial statements.

Notes to the parent company financial statements

7 Property, plant and equipment

Amounts in DKKm	Land and buildings*	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	**2017**	2016
Cost beginning of year	571	473	39	198	1,281	1,247
Additions	1	5	3	66	75	52
Disposals	(1)	(6)	(2)	-	(9)	(18)
Transfer to/from other groups	2	19	7	(28)	-	-
Cost year end	**573**	**491**	**47**	**236**	**1,347**	**1,281**
Depreciation and impairment beginning of year	238	246	28	-	512	471
Depreciation for the year	17	44	4	-	65	58
Depreciation of disposals	-	(6)	(1)	-	(7)	(17)
Impairment for the year**	-	-	-	78	78	-
Depreciation and impairment year end	**255**	**284**	**31**	**78**	**648**	**512**
Carrying amount year end	**318**	**207**	**16**	**158**	**699**	**769**
of which assets held under finance leases					86	91
Value of land and buildings subject to mortgages					230	240

* Land and buildings in Denmark include buildings on land leased from Scion DTU A/S, Hørsholm. The lease period for this land is unlimited.

**See note 6 in the consolidated financial statements.

8 Deferred tax

Amounts in DKKm	Intangible assets	Tangible assets	Current assets	Liabilities	Tax losses carried forward	Total
2017						
Carrying amount beginning of year	(48)	(25)	(25)	2	142	46
Adjustment to prior years					20	20
Recognised in the income statement, net	(6)	(2)	6	(1)	93	90
Carrying amount year end	**(54)**	**(27)**	**(19)**	**1**	**255**	**156**
2016						
Carrying amount beginning of year	(40)	(25)	(1)	6	46	(14)
Adjustment to prior years	1	4	(6)	(4)	6	1
Recognised in the income statement, net	(9)	(4)	(18)	-	90	59
Carrying amount year end	**(48)**	**(25)**	**(25)**	**2**	**142**	**46**

ALK-Abelló A/S is included in a national joint taxation with Lundbeckfonden (Lundbeckfond Invest A/S) and its Danish subsidiaries.

ALK-Abello A/S recognises deferred tax assets including the tax value of tax losses if it is probable that it can be utilized against future taxable income within a foreseeable future (3-5 years). This includes an assessment of the possibilities to utilize potential tax losses in the joint taxation scheme with Lundbeckfonden (Lundbeckfond Invest A/S).

Notes to the parent company financial statements

9 Investments in subsidiaries

Amounts in DKKm	2017	2016
Cost beginning of year	905	905
Cost year end	**905**	**905**
Write-down beginning of year	176	129
Write-down during the year	-	47
Write-down year end	**176**	**176**
Carrying amount year end	**729**	**729**

Dividends from subsidiaries amounted to DKK 18 million (2016: DKK 70 million).

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

10 Inventories

Amounts in DKKm	2017	2016
Raw materials and consumables	84	63
Work in progress	242	205
Manufactured goods and goods for resale	25	19
Total	**351**	**287**
Amount of write-down of inventories during the year	11	7
Amount of reversal of write-down of inventories during the year	2	1

11 Mortgage debt, bank loans and financial loans

Amounts in DKKm	2017	2016
Debt to mortgage credit institutions secured by real property		
Mortgage debt is due as follows:		
Within 1 year	17	17
From 1-5 years	70	69
After 5 years	223	241
Total	**310**	**327**
Bank loans and financial loans		
Bank loans and financial loans are due as follows:		
Within 1 year	-	-
From 1-5 years	447	-
After 5 years	-	446
Total	**447**	**446**

12 Operating lease liabilities

Amounts in DKKm	2017	2016
Lease payments recognised in the income statement	14	12
Total minimum future lease payments:		
Within 1 year	13	13
From 1-5 years	48	37
After 5 years	-	-
Total	**61**	**50**

Notes to the parent company financial statements

13 Contingent liabilities and commitments

For information on contingent liabilities and commitments, see note 21 in the consolidated financial statements.

14 Related parties

ALK-Abello A/S is included in the consolidated financial statements of Lundbeckfonden.

ALK-Abello A/S has had transactions with susidiaries during 2017. All subsidiaries are owned 100%.

Transactions with the majority shareholder are disclosed in note 27 in 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.

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 notes 4 and 5 in the consolidated financial statements.

15 Fees to ALK-Abelló A/S' auditors

Amounts in DKKm	**2017**	2016
Fees to the auditors, Deloitte, appointed at the annual general meeting:		
Audit services	1	1
Tax advisory services	1	1
Other services	-	-
Total	**2**	**2**

Of the fee to the appointed auditors, tax advisory services comprise various deliveries including compliance.

16 Proposed appropriation of net profit/(loss)

Amounts in DKKm	**2017**	2016
Proposed dividend	-	51
Retained earnings	(391)	(261)
Total	**(391)**	**(210)**

17 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	2017	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Income statement					
Revenue	2,910	763	667	691	789
Cost of sales	1,268	387	283	298	300
Research and development expenses	426	143	88	97	98
Sales and marketing expenses	1,067	306	254	269	238
Administrative expenses	231	68	51	55	57
Operating profit/(loss) (EBIT)	(80)	(139)	(9)	(28)	96
Net financial items	(42)	(14)	(13)	(7)	(8)
Profit/(loss) before tax (EBT)	(122)	(153)	(22)	(35)	88
Net profit/(loss)	(158)	(159)	-	(1)	2
Operating profit/(loss) before depreciation (EBITDA)	253	61	36	16	140
Average number of employees (FTE)	2,213	2,323	2,344	2,351	2,239

Amounts in DKKm	2017	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Revenue (Growth in revenue in local currency %)					
Europe	**2,220 (-9)**	**581 (-5)**	**513 (3)**	**510 (-20)**	**616 (-9)**
– SCIT/SLIT-drops	1,627 (-13)	425 (-14)	384 (-2)	358 (-27)	460 (-9)
– SLIT-tablets	430 (6)	122 (46)	80 (25)	106 (-9)	122 (-13)
– Other products and services	163 (13)	34 (0)	49 (14)	46 (33)	34 (2)
North America	**606 (21)**	**154 (46)**	**134 (17)**	**166 (30)**	**152 (-2)**
– SCIT/SLIT-drops	246 (-11)	65 (1)	61 (-8)	59 (-18)	61 (-16)
– SLIT-tablets	72 (17)	24 (437)	4 (-64)	27 (161)	17 (-58)
– Other products and services	288 (76)	65 (72)	69 (75)	80 (78)	74 (79)
International markets	**84 (48)**	**28 (17)**	**20 (80)**	**15 (155)**	**21 (35)**
– SCIT/SLIT-drops	44 (64)	11 (25)	6 (114)	9 (246)	18 (36)
– SLIT-tablets	26 (5)	13 (-4)	11 (40)	1 (-11)	1 (-56)
– Other products and services	14 (157)	4 (97)	3 (n/a)	5 (145)	2 (100)
Total revenue	**2,910 (-2)**	**763 (4)**	**667 (7)**	**691 (-10)**	**789 (-7)**
– SCIT/SLIT-drops	1,917 (-12)	501 (-11)	451 (-2)	426 (-24)	539 (-9)
– SLIT-tablets	528 (8)	159 (59)	95 (17)	134 (5)	140 (-23)
– Other products and services	465 (49)	103 (41)	121 (48)	131 (61)	110 (47)

Amounts in DKKm	2017	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
Balance sheet					
Total assets	4,958	4,958	4,500	4,584	4,823
Invested capital	2,864	2,864	2,853	2,779	2,493
Equity	3,290	3,290	2,756	2,787	2,823
Cash flow and investments					
Depreciation, amortisation and impairment	333	200	45	44	44
Cash flow from operating activities	(387)	(9)	(97)	(242)	(39)
Cash flow from investing activities	(358)	(50)	(56)	(85)	(167)
– of which investment in tangible and intangible assets	(267)	(52)	(57)	(85)	(73)
– of which acquisitions of companies and operations	(94)	-	-	-	(94)
Free cash flow	(745)	(59)	(153)	(327)	(206)
Information on shares					
Dividend	-	-	-	-	51
Share capital	111	111	101	101	101
Shares in thousands of DKK 10 each	11,141	11,141	10,128	10,128	10,128
Share price, end period – DKK	740	740	991	972	1,006
Net asset value per share – DKK	295	295	272	275	279
Key figures					
Gross margin – %	56	49	58	57	62
EBITDA margin – %	9	8	5	2	18
Earnings per share (EPS) – DKK	(15.9)	(15.9)	-	-	-
Diluted earnings per share (DEPS) – DKK	(15.9)	(15.9)	-	-	-
Cash flow per share (CFPS) – DKK	(39.0)	(1.0)	(10)	(24)	(4)
Share price/Net asset value	2.5	2.5	3.6	3.5	3.6

* Management's review comprises this page as well as pages 1-35 and Financial highlights and key ratios for the ALK Group on page 11.

Definitions: see page 70.

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