Annual report 2016

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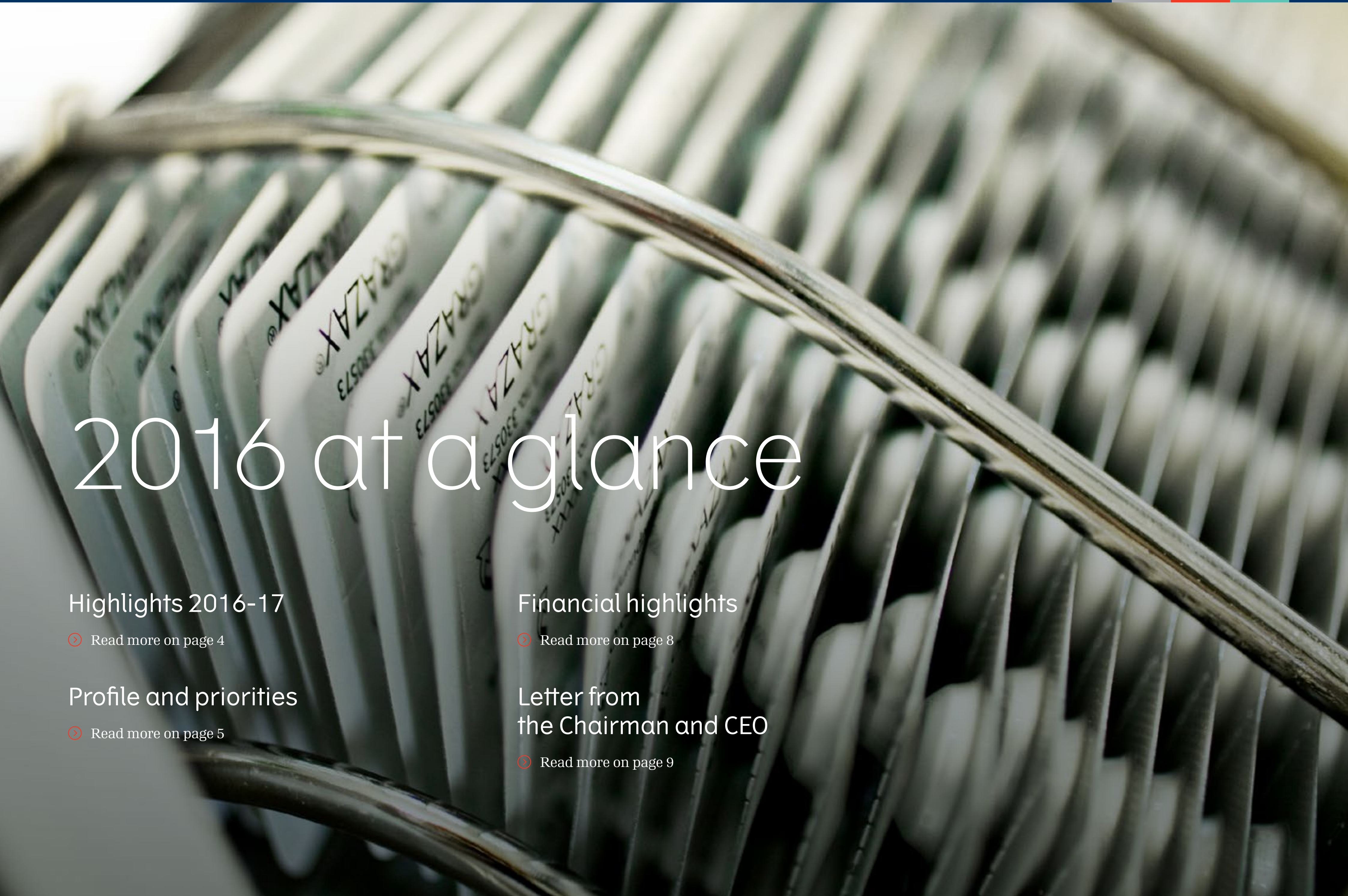
Cover image

House dust mite respiratory allergy, the most common in the world, can trigger allergic asthma in children. A new treatment developed by ALK addresses the underlying cause, helping both parents and patients to breathe a little easier.



2016 at a glance

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Highlights 2016-17

BASE BUSINESS

25%

revenue growth

2017 REVENUE

2.8-3.0

DKK billion

Extended market leadership

Benefiting from market disruptions in Europe caused by temporary issues at a competitor, ALK achieved record levels of revenue and operating profit in 2016. Revenue grew to DKK 3.0 billion (2.57), driven by strong double-digit growth in sales of SLIT-tablets, SLIT-drops, diagnostics and other products, whereas SCIT sales weakened towards the end of the year following a temporary reduction in production capacity. Operating profit (EBITDA before special items) increased by 56% to DKK 705 million (452) due to top-line growth, economies of scale and operational efficiencies.

ACARIZAX® takes top spot

Just six months after its launch, ACARIZAX® was the most prescribed AIT product in Germany and Denmark for new adult house dust mite allergy patients. Sales in Japan, under the brand name MITICURE™, have also been steadily growing so that, in total, close to 25,000 patients have now been initiated on ACARIZAX® treatment worldwide. 2016 saw several further approvals and launches, while regulatory processes were initiated in North America and South-East Asia.

Investments in capacity and quality

In response to higher demand and increasing regulatory requirements, ALK accelerated its investments in production capacity and quality. Expansion of SLIT-tablet production capacity continued as planned, while staffing at the SLIT-drops facility was nearly doubled. ALK accelerated upgrades of the SCIT production facility which unfortunately has reduced SCIT capacity temporarily, however, output will gradually normalise in 2017.

Major opportunity in the USA

In January 2017, all rights to GRASTEK®, RAGWITEK® and the HDM SLIT-tablet in North America were repatriated to ALK after a phase-out of the partnership with MSD (known as Merck in the USA and Canada). ALK's North American subsidiaries will now market the tablets alongside their existing portfolios of bulk allergenic extracts, diagnostics and other products. To facilitate this, ALK has added around 50 new employees and is developing a new long-term commercial strategy for North America.

Asthma evidence continues to build

Evidence supporting the use of AIT in asthma continues to build. In April, the *Journal of the American Medical Association* published Phase III data from an ACARIZAX® asthma trial which showed a substantial reduction in the risk of moderate to severe asthma exacerbations. Separately, the *GRAZAX® Asthma Prevention* trial demonstrated that treatment with GRAZAX® significantly reduced children's risk of experiencing asthma symptoms.

2017 outlook

2017 will see significant global investments and cost increases as ALK seeks to build, consolidate and strengthen its market position and long-term growth. ALK will also continue to increase capacity and strengthen the robustness of its product supply. Revenue in North America and International markets is projected to increase, while European revenue is expected to decline as markets settle after competitor disruptions which provided an extraordinary boost to ALK's sales. However, ALK expects to retain the majority of its market share gains in Europe and anticipates 2017 revenue that is still significantly higher than before the disruptions. 2017 total revenue is projected at DKK 2.8-3.0 billion (3.0). Reported EBITDA is expected at around DKK 300 million (642).

Profile and priorities

Focus on respiratory diseases

ALK is a global pharmaceutical company with a mission to improve quality of life for people suffering severely with respiratory allergies and related asthma. With a near century-long heritage of pioneer research and product innovation in the treatment of allergic diseases, today ALK's business is focused on the prevention, diagnosis and treatment of the respiratory diseases allergic rhinitis (hay fever) and allergic asthma.

ALK is a world leader in allergy immunotherapy (AIT), a unique, disease-modifying treatment that addresses the underlying cause of allergy. The treatment induces an immune response that provides sustained protection from allergies.

ALK's business model is based on an unrivalled understanding of allergens and how they affect the human body, as well as in-depth knowledge about the link between allergy and other respiratory diseases, such as asthma. This understanding enables ALK to develop and produce its biological medicines using complex manufacturing processes that are subject to comprehensive analyses and quality control at all stages. This knowledge is key to ALK's unique market position.

The business model relies on innovation. ALK works continuously to improve the quality, safety and efficacy of its products and to introduce new, more convenient treatments that will improve patients' access to allergy treatment and facilitate market expansion. Over the past 15 years, more than 17,000 patients have participated in clinical trials of new SLIT-tablets targeting the most common global respiratory allergies.

Solutions for the world's allergies

ALK markets products covering a wide range of allergies, including grass, ragweed, house dust mite, tree, Japanese cedar, cat, dog and venom. The company also has products in related areas, including allergy diagnosis and emergency intervention following allergy-related anaphylaxis.

ALK's AIT products come in three different forms:

SCIT: Subcutaneous injections given by allergy specialists as regular injections under the skin.

SLIT-drops: Sublingual droplets administered under the tongue by patients at home.

SLIT-tablets: Sublingual tablets that dissolve quickly under the tongue and can be administered by patients at home.

ALK's ACARIZAX® is the first and only SLIT-tablet to be broadly approved for the treatment of house dust mite-induced allergic asthma, and ALK is working to establish AIT not just in the treatment of asthma but potentially also in its prevention.

In 2016, more than 1.5 million people were treated with ALK's AIT products or with AIT-treatments based on its allergenic extracts. ALK aims to roughly double this number by the middle of the next decade.

PROFILE AND PRIORITIES:

ALK in numbers

2,300 dedicated people

Headquartered in Denmark, ALK employs around 2,300 people in Research & Development, Sales & Marketing, Product Supply and administrative functions, primarily in Europe and North America. Since the beginning of 2016, the workforce has grown by 300 people, mainly due to expanded production capacity and increased quality assurance efforts as well as a recent acquisition.

32 countries

ALK is present in 32 countries either directly or via partnerships, with distributors in additional markets. ALK works with its strategic partners to launch its latest products beyond Europe and North America – Abbott for Russia and South-East Asia, Seqirus Ltd for Australia and New Zealand, and Torii Pharmaceutical Co., Ltd for Japan.

6 main production facilities

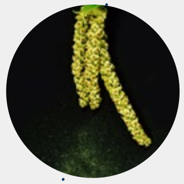
ALK's AIT products are derived from natural allergen sources, which are harvested at its own raw materials production facilities. After primary purification and quality control, the raw materials undergo secondary purification into active pharmaceutical ingredients at one of ALK's six main production facilities. Excipients are added during the final formulation, after which the product is packed, labelled and distributed. The entire process is subject to extensive and continuous quality assurance in compliance with EU, US and Japanese standards for Good Manufacturing Practice.

93 pioneering years

ALK's history dates back to 1923 when the first pharmaceutically manufactured allergen extract was produced at Copenhagen University Hospital. ALK has constantly pushed the boundaries of allergy treatment with world-firsts that include: the first techniques to accurately identify the proteins that provoke allergens (1972), the first standardised allergy immunotherapy (1978), the first SLIT-drops (1990), the first SLIT-tablet (2006), the first AIT product with an EU marketing authorisation for both allergic rhinitis and allergic asthma (2015), and the first extensive documentation of AIT in the prevention of asthma symptoms (2016).

House dust mite

Grass



Tree

Ragweed

Japanese cedar

5 major respiratory allergies

ALK and its partners have invested substantially in the research and development of new, evidence-based SLIT-tablets covering the five major respiratory allergies – house dust mite, grass, tree, ragweed as well as Japanese cedar. The latter is a major cause of allergy in Japan.

PROFILE AND PRIORITIES:

Priorities

Strategic intent

Building on its vision of being the commercial leader and foremost innovator within AIT, ALK's strategy aims to transform the company from largely European with a focus on allergic rhinitis, into a truly global company with a portfolio of standardised, evidence-based products, targeting a broad range of allergies and allergic asthma.

Key business priorities for 2017

Europe

- Consolidate market share gains in France and other markets
- Continue SCIT capacity and quality upgrades, restore full production capacity to supply global demand
- Expand the reach of ACARIZAX® in existing and new markets
- Initiate paediatric development of ACARIZAX® and complete Phase III development of the tree SLIT-tablet
- Lead transformation of market towards registered and evidence-based products

North America

- Build organisation to support sales of SLIT-tablets
- Secure continuity in sales of SLIT-tablets
- Prepare for successful HDM SLIT-tablet launches
- Decide on future business model
- Grow the value of existing allergenic extracts (SCIT) business
- Continue capacity expansion for HDM SLIT-tablet raw materials to supply global demand

International markets

- Grow business in selected focus markets
- Launch SLIT-tablets in new focus markets (South-East Asia, Russia)
- Prepare for new market entries and business models

Follow-up on key business priorities for 2016

Overall		Progress
Secure organic growth in base business	✓	Base business revenue grew by 25%
Simplify business structure	✓	Restructuring projects completed; capacity costs to revenue decreased to 49% (2012: 65%)

ACARIZAX®-specific

Ensure successful commercial launch in Europe with satisfactory reimbursement	✓	Launched with reimbursement in six European countries; additional launches expected in 2017
Achieve significant capture rate for new HDM patient AIT initiations in Germany	✓	The most prescribed AIT product for new HDM patients in Germany
Initiate paediatric development	→	Trial in 2017 in paediatric asthma patients
Support partners on filings and approvals	✓	Filings in the USA, Canada and South-East Asia; approval and launch in Australia
Support Torii's efforts to achieve a satisfactory capture rate for HDM patient AIT initiations in Japan	✓	MITICURE™ leads the SLIT-tablet market with 70% market share; patient uptake progressing well

Financial highlights and key ratios for the ALK Group*

Amounts in DKKm/EURm**	DKK 2016	DKK 2015	DKK 2014	DKK 2013	DKK 2012	DKK 2011	EUR 2016	EUR 2015
INCOME STATEMENT								
Revenue	**3,005**	2,569	2,433	2,244	2,345	2,348	**404**	344
Operating profit before depreciation (EBITDA) before special items	**705**	452	453	258	306	406	**95**	61
Operating profit before depreciation (EBITDA)	**642**	451	404	236	242	406	**86**	60
Operating profit (EBIT) before special items	**542**	293	313	131	182	299	**73**	39
Operating profit (EBIT)	**479**	292	264	109	118	299	**64**	39
Net financial items	**8**	108	36	(5)	(5)	22	**1**	14
Profit before tax (EBT)	**487**	400	300	104	113	321	**66**	54
Net profit, continuing operations	**270**	344	181	61	54	200	**36**	46
Net profit, past discontinued operations	**-**	-	-	-	155	-	**-**	-
Net profit	**270**	344	181	61	209	200	**36**	46
Average number of employees (FTE)	**2,010**	1,854	1,809	1,804	1,828	1,724	**2,010**	1,854
BALANCE SHEET								
Total assets	**4,799**	4,252	3,419	3,268	3,295	3,355	**646**	564
Invested capital	**2,353**	2,434	2,214	2,104	1,974	1,639	**317**	326
Equity	**2,875**	2,697	2,354	2,249	2,257	2,163	**387**	362
CASH FLOW AND INVESTMENTS								
Depreciation, amortisation and impairment	**163**	159	140	127	124	107	**22**	21
Cash flow from operating activities	**405**	183	320	146	91	431	**54**	25
Cash flow from investing activities	**(204)**	(165)	(219)	(231)	(243)	(160)	**(27)**	(22)
– of which investment in tangible and intangible assets	**(225)**	(199)	(202)	(253)	(243)	(153)	**(30)**	(27)
– of which acquisitions of companies and operations	**-**	(12)	(24)	-	-	-	**-**	(2)
Free cash flow	**201**	18	101	(85)	(152)	271	**27**	2

Amounts in DKKm/EURm**	DKK 2016	DKK 2015	DKK 2014	DKK 2013	DKK 2012	DKK 2011	EUR 2016	EUR 2015
INFORMATION ON SHARES								
Proposed dividend	**51**	51	51	51	51	51	**6.9**	6.9
Share capital	**101**	101	101	101	101	101	**13.6**	13.6
Shares in thousands of DKK 10 each	**10,128**	10,128	10,128	10,128	10,128	10,128	**10,128**	10,128
Share price, at year end - DKK/EUR	**920**	876	651	614	389	321	**123.8**	117.4
Net asset value per share - DKK/EUR	**284**	266	232	222	223	214	**38.2**	35.7
KEY FIGURES								
Gross margin – %	**66.9**	67.5	69.7	68.9	72.4	74.0	**66.9**	67.5
EBITDA margin before special items – %	**23.5**	17.6	18.6	11.5	13.0	17.0	**23.5**	17.6
EBITDA margin – %	**21.4**	17.6	16.6	10.5	10.3	17.0	**21.4**	17.6
Return on equity (ROE) – %	**9.7**	13.6	7.9	2.7	9.5	9.6	**9.7**	13.6
ROIC incl. goodwill – %	**20.0**	12.8	12.2	5.3	6.5	18.0	**20.0**	12.8
Pay-out ratio – %	**18.9**	14.8	28.2	83.6	24.4	26.0	**18.9**	14.8
Earnings per share (EPS) – DKK/EUR	**27.5**	35.5	18.7	6.3	21.5	20.2	**3.7**	4.8
Earnings per share (EPS), continuing operations – DKK/EUR	**27.5**	35.5	18.7	6.3	5.5	20.2	**3.7**	4.8
Earnings per share (DEPS), diluted – DKK/EUR	**27.2**	35.0	18.3	6.2	21.4	20.2	**3.7**	4.7
Earnings per share (DEPS), diluted, continuing operations – DKK/EUR	**27.2**	35.0	18.3	6.2	5.5	20.2	**3.7**	4.7
Cash flow per share (CFPS) – DKK/EUR	**41.3**	18.9	33.1	15.1	9.3	43.5	**5.5**	2.5
Cash flow pr. share (CFPS), continuing operations – DKK/EUR	**41.3**	18.9	33.1	15.1	9.3	43.5	**5.5**	2.5
Price earnings ratio (PE)	**33.4**	24.8	34.7	97.3	18.1	16.0	**33.4**	24.8
Share price/Net asset value	**3.2**	3.3	2.8	2.8	1.7	1.5	**3.2**	3.3
REVENUE GROWTH – %								
Organic growth	**19.0**	2.0	8.0	(4.0)	(1.0)	6.0	**19.0**	2.0
Exchange rate differences	**(2.0)**	4.0	1.0	-	1.0	(1.0)	**(2.0)**	4.0
Acquisitions	**-**	-	-	-	-	4.0	**-**	-
Total growth revenue	**17.0**	6.0	9.0	(4.0)	-	9.0	**17.0**	6.0

* Management's review comprises pages 1-38 as well as Financial highlights and key ratios for the ALK Group on page 83.
** Financial highlights and key ratios stated in EUR constitute supplementary information to the annual report. The exchange rate used in translating from DKK to EUR is the exchange rate prevailing on 31 December 2016 (EUR 100 = DKK 743).

Definitions: see page 73.

LETTER FROM THE CHAIRMAN AND CEO:

Seizing opportunities in an unusual market

2016 was a landmark year for ALK. We delivered record revenue of DKK 3 billion with underlying growth of 25%*, well above the average of recent years, while our operating profit exceeded DKK 700 million for the first time.

Steen Riisgaard

Carsten Hellmann

From a competitive perspective, 2016 was highly unusual. For the first three months, our main global competitor temporarily closed its factory in Europe, halted delivery to a number of markets and recalled many of its products. This, together with issues encountered by smaller competitors in the face of ever more stringent regulatory requirements, resulted in a major boost for ALK sales in Europe, particularly in the first half of the year.

Our competitor's experiences offer a lesson in the importance of a robust supply chain and impeccable quality standards and ALK is committed to leading our industry in these areas. Thus, we are significantly increasing our resources to upgrade our production and compliance, and we will further focus our portfoilo on registered and evidence-based products. There is never a convenient time to make such upgrades, and our work has created some temporary bottlenecks in production which have meant delivery delays for certain products and markets. For this, we extend our sincere apologies to the doctors and patients affected.

Another unexpected development was MSD's decision to withdraw from our partnership covering the SLIT-tablet portfolio in North America. Our response will be critical to our long-term ambitions. The USA represents the largest pharmaceutical market in the world, and at the same time also represents ALK's single biggest growth opportunity of the next decade. Accordingly, we are investing heavily to ramp up our organisation there while also developing a new, long-term commercial strategy.

GRASTEK® and RAGWITEK® sales in the USA have so far been modest and new business models are being explored to address this. We remain confident in the tablet portfolio and believe that ACARIZAX® has the potential to become the most prescribed product of its kind. We already see early evidence of this in Europe, where the product remains the first and only SLIT-tablet to be indicated for use in allergic asthma. The product is also performing well in Japan.

Meanwhile, data from our five-year *GRAZAX® Asthma Prevention* (GAP) trial, released in 2016, showed that by treating children early enough, we can actually change the trajectory of a patient's immune system development. These are exciting findings and show that we are only beginning to fully understand the benefits of AIT treatment in asthma – a potential long-term growth driver for ALK.

ALK begins 2017 in a strong position and the year ahead will see significant investments and costs in several key areas as we seek to consolidate ALK's market position and build long-term growth. We will allocate significant resources to holding onto as much of 2016's gains as possible, particularly in France. As previously mentioned, the USA remains a priority and will see investments there to support tablet sales. We will also continue our expansion in International markets.

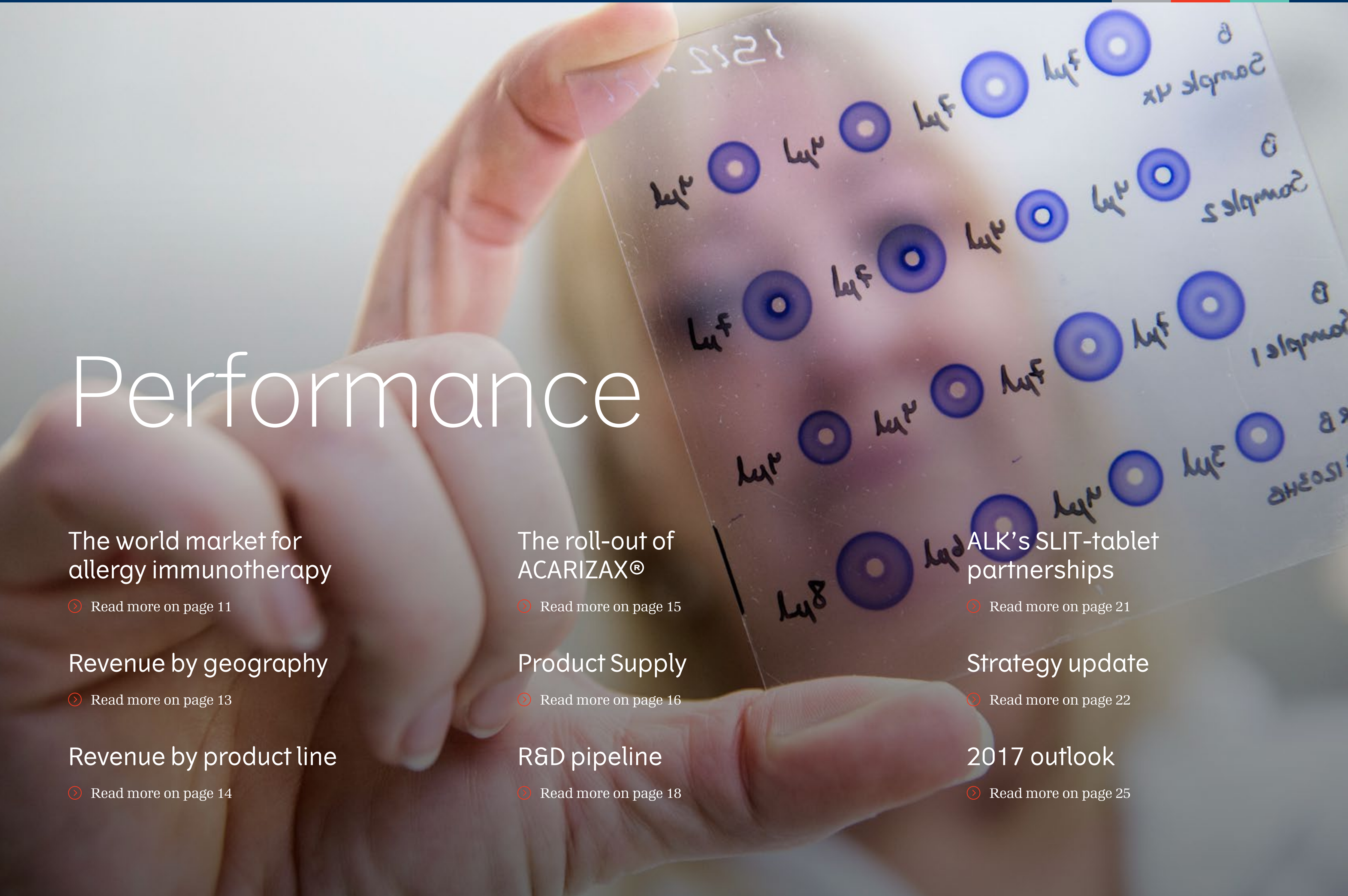
We will continue to build capacity and secure the robustness of ALK's product supply. By doing so, ALK will be well placed to take advantage of an expected new wave of industry consolidation, largely driven by increased regulatory and quality requirements.

These additional resource allocations will inevitably slow earnings in 2017 when compared to an exceptional 2016, but we are convinced this money is being well spent, and that it will provide a satisfactory return as we unlock the potential of our unique products and market opportunities.

Steen Riisgaard
Chairman
of the Board

Carsten Hellmann
President & CEO

* Growth in base business. Revenue from ALK's base business is defined as total revenue excluding revenues from the SLIT-tablet partnerships in North America and International markets



Performance

The world market for allergy immunotherapy

Global AIT sales declined slightly in 2016 to around DKK 6.6 billion, reflecting the impact of market disruptions in parts of Europe. Elsewhere, sales continued to grow.

ALK accounted for around 40% of global sales in 2016 and is one of only two global players in an industry typified by smaller companies focused on few markets.

Europe
An estimated 1.4 million Europeans received AIT treatment in 2016, with Germany and France accounting for approximately two-thirds of the region's sales. Following years of low, single-digit growth, AIT sales declined to around DKK 5 billion. The decline was largely caused by problems at ALK's main competitor resulting in supply shortages in many countries, with the market not expected to fully recover until 2017.

ALK is one of only two pan-European AIT providers in a region otherwise characterised by single-market companies, many of whom only market non-registered products. In 2016, ALK gained market share in Southern and Eastern Europe. ALK's share in SCIT-dominated countries, such as Germany, weakened in the second half after ALK accelerated upgrades to its SCIT manufacturing which led to capacity constraints.

Overall, Europe is undergoing a transition from unregistered named-patient products – produced specifically for an individual patient under the authority of a prescribing doctor – towards documented and registered products. Several countries are ending reimbursement for non-registered products or are now stressing the importance of prescribing only registered products that are supported by clinical evidence and sufficient production standards. ALK expects this trend to continue, likely leading to further industry consolidation.

ALK estimates that its 2016 market share for AIT products in general in Europe now exceeds 40% (~33) and is more than 75% for SLIT-tablets alone.

North America
The USA is the largest AIT market in the world in terms of patient numbers, with an estimated three million people undergoing AIT treatment. The most common treatment is a course of multi-allergen SCIT 'shots' which are prepared primarily by allergy specialists using bulk-supplied allergenic extracts. Total industry sales of allergenic extracts are around DKK 1.2 billion, which is estimated to be approximately 5% of total diagnostics and treatment services billed to managed care companies.

ALK is one of only three main manufacturers of bulk allergenic extracts, with a market share of around 30%. The company also markets diagnostics and other services to allergy clinics. ALK's former partner, MSD, launched the SLIT-tablets GRASTEK® and RAGWITEK® just before the 2015 pollen season. From 2017, ALK, Inc. will market GRASTEK® and RAGWITEK®.

International markets
Outside Europe and North America, AIT is still in its infancy, but patient numbers are growing, especially in Japan, and ALK estimates that around 200,000 people were treated with AIT in International markets.

China is one of the largest of these markets, with total sales estimated at approximately DKK 250 million annually. ALK is the market's second largest AIT company, behind a local manufacturer. The market potential in China is considerable given the large number of house dust mite allergy sufferers, but access to AIT is currently restricted due to lack of allergy treatment infrastructure.

Torii, ALK's partner for Japan, is the market leader in AIT in Japan, a country with one of the highest levels of diagnosed allergic rhinitis in the world. Still, AIT is not widely used and only first gained reimbursement in 2014.

Other growth markets are served directly by ALK or by strategic partners: Australia (Seqirus), Russia and South-East Asia (Abbott), Turkey and the Middle East (ALK).

Focus on patients with severe allergies

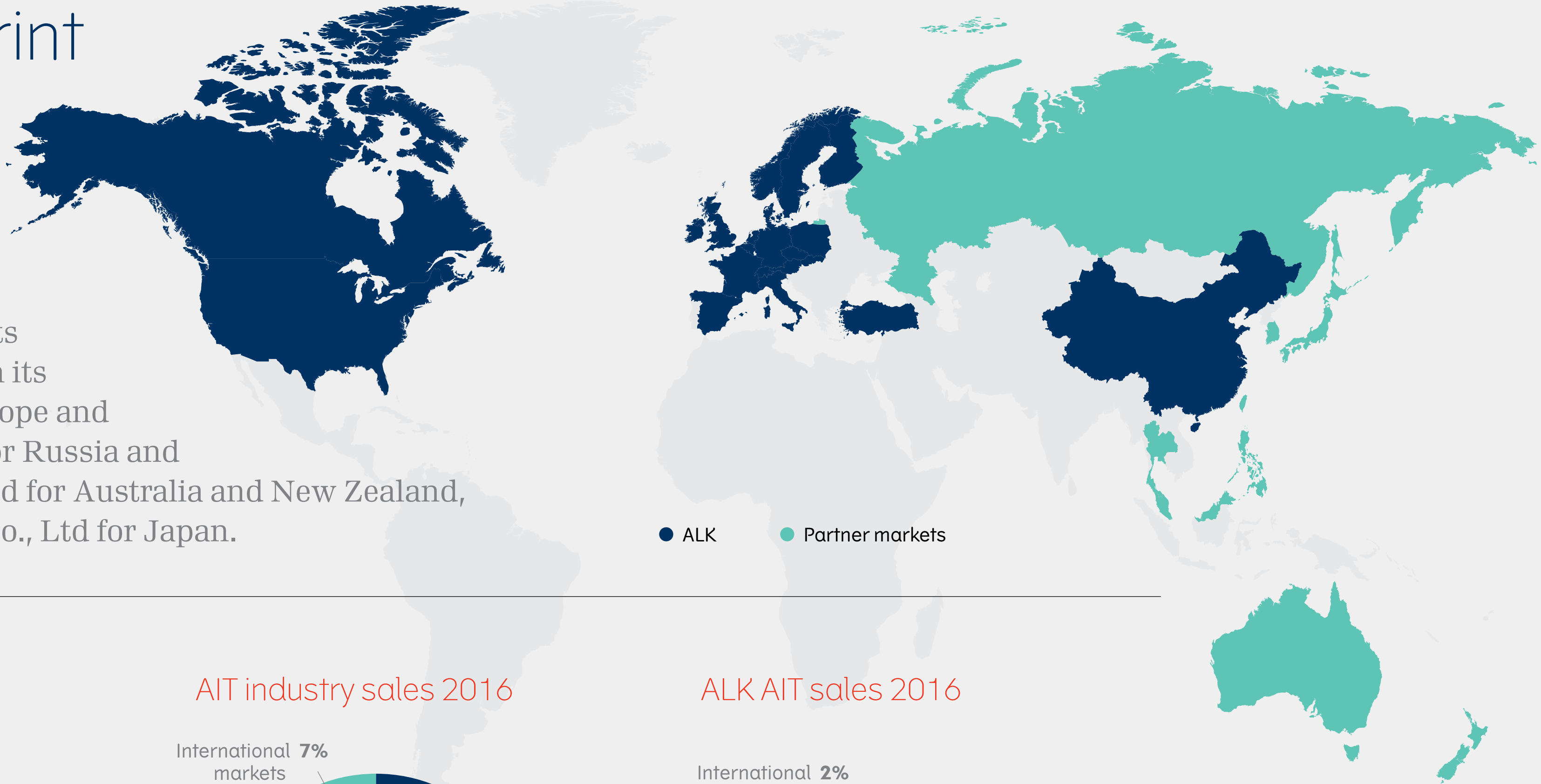
Worldwide, allergic rhinitis (hay fever) is estimated to affect approximately 400-500 million people. ALK and its partners focus on the more severe patients whose condition is not well controlled despite the use of symptom-relieving medications. Only a minority of these patients currently have access to AIT, with or without reimbursement – due either to poor infrastructure or a lack of endorsement for AIT treatment. As a result, only around 4.6 million people are undergoing AIT treatment today, and severe allergies remain significantly under-treated.

SCIT (injections) remains the most widely-used form of AIT, followed by SLIT-drops and SLIT-tablets. SLIT-tablets – which were first introduced in 2006 – are the fastest growing form of AIT treatment.

THE WORLD MARKET FOR ALLERGY IMMUNOTHERAPY:

Global footprint

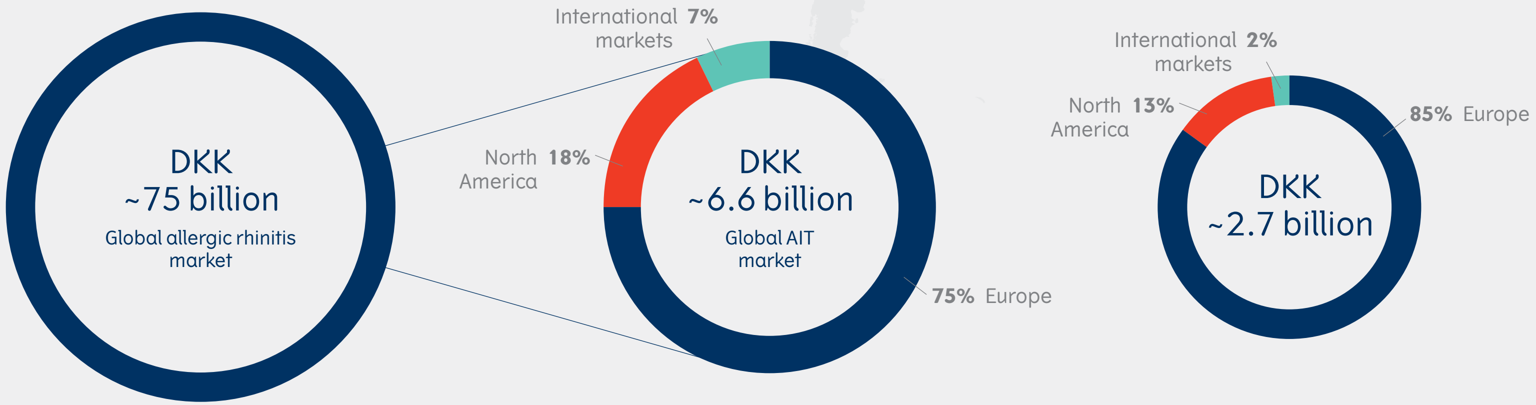
ALK is present in 32 countries either directly or via partnerships, with distributors in additional markets. ALK works with its strategic partners to launch its latest products beyond Europe and North America — Abbott for Russia and South-East Asia, Seqirus Ltd for Australia and New Zealand, and Torii Pharmaceutical Co., Ltd for Japan.



Allergic rhinitis

AIT industry sales 2016

ALK AIT sales 2016



Revenue by geography

(Comparative figures for 2015 are shown in brackets. Revenue growth rates are stated as organic growth in local currencies, unless otherwise indicated)

Europe
Revenue in Europe grew by 28% to DKK 2,434 million (1,937), representing 81% of ALK's total revenue (75).

Sales were positively influenced by a record-high number of patient initiations in the first half-year in markets affected by supply shortages following production issues at ALK's main competitor. The majority of patients who switched to ALK products during this period continued on ALK treatments when renewing their prescriptions. In addition, ALK took an increased share of new patients starting AIT treatment in these markets during the autumn.

Sales of SLIT-tablets and SLIT-drops recorded double-digit growth throughout the year. Growth in SLIT-drops sales was facilitated by expanding capacity at ALK's SLIT-drops facility in France where the workforce was nearly doubled to approximately 300 employees. The total number of employees in France is now more than 400. Output also grew steadily at ALK's highly automated SLIT-tablet plant.

By contrast, SCIT sales declined in Q3 and Q4 as ALK decided to accelerate upgrades to its SCIT production. This temporarily reduced production capacity and resulted in delivery delays for certain products and markets, so that fewer patients were initiated onto SCIT while ALK prioritised maintenance supplies for patients already in treatment. These upgrades are estimated to have reduced revenue by approximately DKK 100 million in the last four months of the year. ALK expects supplies to gradually normalise during 2017.

ALK recorded single- or double-digit growth across Southern, Central and Northern Europe, while sales in the newer Eastern European markets grew by triple digits. In Germany, despite strong uptake for ACARIZAX® and GRAZAX®, overall sales were negatively impacted by the temporary reduction in SCIT production capacity.

North America
Revenue in North America was DKK 512 million (442), representing 17% (17) of total revenue. The 15% growth was driven by ALK product sales and a milestone payment from MSD in the first quarter.

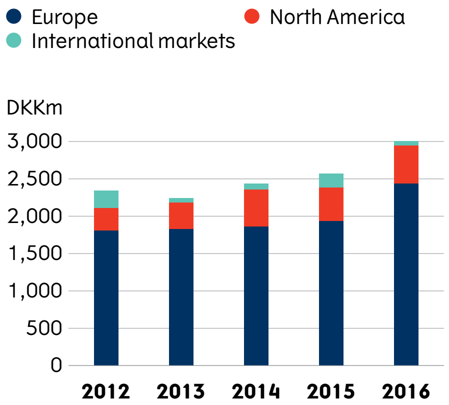
ALK increased sales of its bulk allergenic extracts, diagnostics and other allergy products by 12% to DKK 449 million (398). After 10 consecutive quarters with double-digit growth, sales slowed in Q4 due to the temporary reduction of SCIT capacity.

Income from the former MSD partnership amounted to DKK 63 million (44) and included a milestone payment, sales royalties on GRASTEK® and RAGWITEK®, as well as product supply and R&D reimbursements.

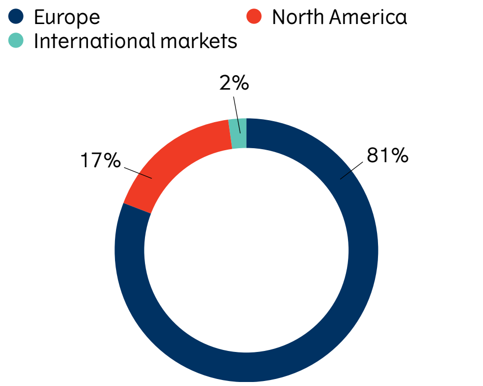
International markets
Revenue in International markets declined 68% to DKK 59 million (190), representing 2% of total revenue (8).

Income from SLIT-tablet partnerships in International markets was down due to an expected DKK 112 million decline in milestone payments; however, tablet sales in Japan developed well and Australia saw its first sales. Sales of ALK's own products in China, currently the largest International market, continued to weaken. In response, ALK has changed distributor in China and will now play a bigger role in sales and marketing activities. ALK sales in other markets continued to progress.

5-year total revenue by geography



Total revenue by geography



Revenue by product line

SCIT and SLIT-drops

Total revenue from SCIT and SLIT-drops grew by 21% to DKK 2,190 million (1,845), accounting for 73% (72) of total revenue.

SLIT-drops sales increased 61%, driven by strong demand in France and a few other markets. This reverses the trend seen over recent years where sales of SLIT-drops had been decreasing in most countries except France, due to general changes in reimbursement and documentation requirements.

SCIT sales declined by 4% due to production upgrades, which had an impact on capacity from September onwards.

SLIT-tablets

Revenue from SLIT-tablets grew by 13% to DKK 494 million (439) and accounted for 16% (17) of total revenue. European sales growth offset a decline in milestone payments and service fees from partners.

European sales of SLIT-tablets grew by 61% and totalled DKK 406 million (253). GRAZAX® became the most prescribed AIT product for new grass allergy patients in Germany, and the second largest AIT grass product overall. European SLIT-tablet sales were further boosted by the launch of ACARIZAX® (cf page 15).

Revenue from SLIT-tablets in North America and International markets was DKK 88 million (186). This was in part due to a DKK 78 million decline in milestone payments, and partly due to lower reimbursements for R&D services, reflecting the advanced stage of the tablet portfolio in all major markets. These developments were only marginally offset by higher tablet sales in Turkey, Australia and Japan.

Other products and services

Revenue from other products and services (adrenaline auto-injectors, diagnostics, etc.) grew by 16% to DKK 321 million (285), accounting for 11% (11) of total revenue.

Sales of diagnostics and other products developed positively throughout the year in all sales regions. Sales of the adrenaline auto-injector Jext® were below expectations but stabilised in Q4. Efforts to improve the supply chain's robustness continue in collaboration with sub-suppliers.

Total revenue – Q4 and full-year 2016

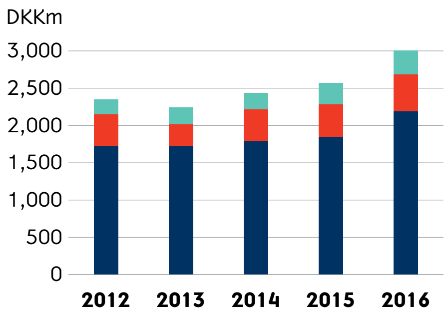
DKKm	Q4 growth	Q4 revenue	Full-year growth	Full-year revenue
SCIT & SLIT-drops	10%	571	21%	2,190
SLIT-tablets	8%	84	61%	407
Diagnostics, adrenaline etc.	13%	80	16%	321
Base business	**10%**	**735**	**25%**	**2,918**
Partner revenue*	140%	19	-52%	87
Total revenue	**12%**	**754**	**19%**	**3,005**

Growth is stated as organic growth in local currencies

* Milestones and services cause revenue to fluctuate

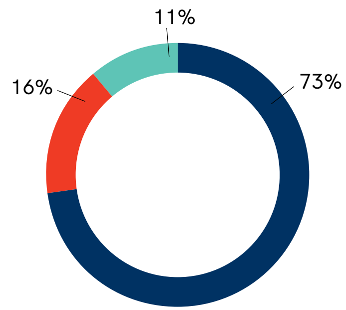
5-year total revenue by product line

● SCIT/SLIT-drops ● SLIT-tablets
● Other products and services



Total revenue by product line

● SCIT/SLIT-drops ● SLIT-tablets
● Other products and services



The roll-out of ACARIZAX®

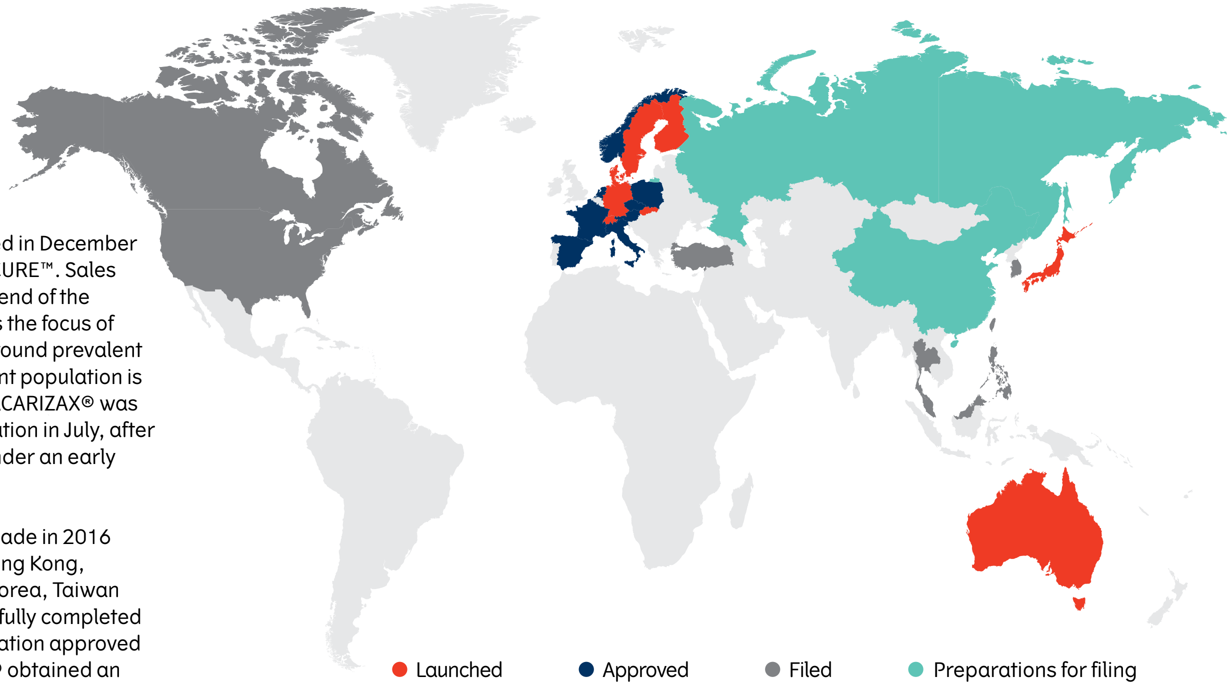
ACARIZAX® was introduced in eight new markets in 2016 and market uptake was generally encouraging, with close to 25,000 patients initiating treatment worldwide. Progress was also made on the regulatory front and, as of February 2017, ACARIZAX® had gained regulatory approval in eight other markets, with filings under review in nine further countries.

The roll-out follows the multi-country European approval covering 11 markets, which was granted in August 2015, followed by additional approvals in Spain, the Netherlands and Switzerland. Negotiations on pricing and reimbursement continue in all European countries where the product has not yet been launched.

In Germany, ACARIZAX® is already the most prescribed AIT product for new adult house dust mite allergy patients with an overall capture rate of around 30%, thus fulfilling ALK's ambition of achieving a significant share of the country's 20-30,000 annual house dust mite AIT initiations. The capture rate is even higher among pulmonary specialists, evidencing the importance of the product's asthma indication.

In Japan, ACARIZAX® was launched in December 2015 under the brand name MITICURE™. Sales have steadily increased since the end of the Japanese cedar pollen season, as the focus of prescribers switched to the year-round prevalent house dust mite allergy. The patient population is also growing in Australia, where ACARIZAX® was granted a full marketing authorisation in July, after the product had been available under an early access programme.

Finally, important progress was made in 2016 with filings in the USA, Canada, Hong Kong, Malaysia, the Philippines, South Korea, Taiwan and Thailand, a local trial successfully completed in Russia and a clinical trial application approved in China. Furthermore, ACARIZAX® obtained an import licence in Singapore. Please refer to page 18 (R&D pipeline) for additional details.



Progress in 2016

- Launches in Germany, Denmark, Sweden, Finland, Slovakia, Switzerland, Australia and Japan
- Market authorisations in Spain, the Netherlands and Switzerland
- Regulatory filings in Hong Kong, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand
- New Drug Application submitted in Canada
- Biologics License Application submitted in the USA
- Local trial successfully completed in Russia
- Clinical trial application approved in China

PRODUCT SUPPLY:

Raising quality and capacity

The expertise in ALK's Product Supply represents a key competitive advantage. Its complex biological manufacturing processes – including the sourcing of raw materials and the standardisation of product quality – constitute a major barrier to new market entrants and differentiate ALK's products from those of smaller competitors.

ALK's production processes meet current quality standards and its facilities are inspected on a regular basis by local and international authorities. In the past year alone, ALK facilities have been subject to 12 inspections by regulatory authorities and ALK's partners.

In 2016, ALK responded to product shortages in the market by ramping up production of SLIT-drops and SLIT-tablets. Additional significant investments in house dust mite capacity were initiated in the USA and Denmark to cover expected future demand for HDM SLIT-tablets.

In 2016, an FDA inspection of ALK's facility producing Pharmalgen® (wasp and bee venom) for the US market resulted in an 'Untitled Letter', noting several necessary upgrades, all of which have been addressed by ALK and which now await feedback from the FDA. Meanwhile, an FDA pre-approval inspection of ALK's house dust mite SLIT-tablet production did not give rise to any so-called 'Form 483 observations', used by the agency to flag concerns during inspections.

To ensure quality standards continue to be met, ALK is making further investments in its manufacturing operations, including in quality documentation and new equipment. While these necessary upgrades are taking place, SCIT production capacity has been temporarily reduced, resulting in delivery delays for certain products. ALK expects supplies to gradually normalise from early 2017.

Product Supply in numbers:

~1,200 staff
in ALK Product Supply

6 main facilities
in 4 countries

~200 different allergens
sourced for use in AIT

>100 million doses
of AIT dispensed in 2016

PRODUCT SUPPLY:

A unique production approach

Comprehensive analyses and quality control are performed at all stages of the manufacturing process to ensure that ALK meets the highest manufacturing and quality standards.

There are four key steps to ensuring that ALK's products meet the required quality standards:

Step 1

Raw materials
Natural allergens such as grass pollen and house dust mites are the main ingredients of ALK's products and every year the company grows, collects or harvests significant amounts of allergens. House dust mites are grown in pure cultures.

Step 2

Active Pharmaceutical Ingredient (API) production
Handling natural allergens requires thorough analysis, standardisation and quality control processes. This ensures that the biological variation that will always be present in a natural ingredient does not affect the quality of the finished product. It also ensures that it is possible to reproduce the product to a consistent standard at any time.

Step 3

Finished production
The API is purified and then formulated as subcutaneous injections, sublingual drops or sublingual tablets.

Step 4

Packaging and distribution
Following careful quality control, the finished products are labelled, packaged and distributed. The patients receive the AIT product they have been prescribed.

INSPECTIONS

ALK's production facilities are inspected on a regular basis by local and international authorities as well as partners. In the past year alone, ALK's facilities were inspected 12 times in order to ensure quality and safety in the production of AIT products.

R&D pipeline

With the addition of ACARIZAX®, ALK's pipeline is closer than ever to fulfilling its promise of redefining treatment for people living with the debilitating effects of severe allergies. Work continues towards securing registration in additional markets, including the USA, and making the product available for children. Meanwhile, clinical development for the tree SLIT-tablet is also progressing.

In future, ALK will widen its R&D focus to support the scientific and clinical positioning of its overall portfolio, with the aim of increasing awareness and gaining endorsement of evidence-based AIT within the wider healthcare community. A particular focus will be on accumulating evidence for the use of ALK's SLIT-tablets in children and for the treatment of asthma.

Life-cycle management activities will also form a significant proportion of R&D investments, including for ALK's SCIT and SLIT-drops ranges. Other initiatives include feasibility work for improved diagnostic and follow-up tools.

Product	Phase I	Phase II	Phase III	Filing	Marketed
GRAZAX® Europe Adults and children – Allergic rhinitis					2007
GRASTEK® North America Adults and children – Allergic rhinitis					2014
GRAZAX® International markets* Adults and children – Allergic rhinitis					***

Product	Phase I	Phase II	Phase III	Filing	Marketed
RAGWITEK® North America Adults – Allergic rhinitis					2014
Ragweed SLIT-tablet International markets* Adults – Allergic rhinitis					
Ragweed SLIT-tablet Europe Adults – Allergic rhinitis					
RAGWITEK® SLIT-tablet North America Children – Allergic rhinitis					

Product	Phase I	Phase II	Phase III	Filing	Marketed
MITICURE™ Japan** Adults – Allergic rhinitis					2015
ACARIZAX® Europe Adults – Allergic rhinitis and allergic asthma					2016
ACARIZAX® International markets* Adults – Allergic rhinitis and allergic asthma					***
HDM SLIT-tablet North America Adults – Allergic rhinitis					
MITICURE™ Japan** Children – Allergic rhinitis					

Product	Phase I	Phase II	Phase III	Filing	Marketed
Japanese cedar SLIT-tablet Japan** Adults – Allergic rhinitis					

Product	Phase I	Phase II	Phase III	Filing	Marketed
Tree SLIT-tablet Europe Adults – Allergic rhinitis					

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

Major pipeline events in 2016
In April 2016, the US Food and Drug Administration accepted for review MSD's Biologics License Application for ALK's HDM SLIT-tablet, launched in Europe as ACARIZAX®. Following the termination of the MSD partnership and the repatriation of the SLIT-tablet portfolio in North America to ALK, the ongoing registration processes in the USA and Canada have continued with increased involvement from ALK.

Work also continued on supporting pricing and reimbursement negotiations for ACARIZAX® following its approvals in 14 European countries. This has so far resulted in agreements and subsequent launches in six countries, with further negotiations still ongoing. Important progress was also made in the Asia-Pacific region where ALK supported its partners in the regulatory processes for Australia and South-East Asia.

Also in April, the *Journal of the American Medical Association* (JAMA) published results from a pivotal Phase III clinical trial evaluating ACARIZAX® in allergic asthma. ACARIZAX® is the first and only HDM SLIT-tablet to be indicated for both allergic rhinitis and allergic asthma and the results published in JAMA provided further evidence for the use of ACARIZAX® in allergic asthma patients.

New evidence on the potential use of AIT in asthma was provided with the release of data in 2016 from the *GRAZAX® Asthma Prevention* (GAP) trial with GRAZAX®, ALK's SLIT-tablet against grass pollen allergy. The results showed prevention of asthma symptoms in grass pollen allergic children, with a sustained effect two years after treatment completion. Patients also showed modified immunological responses to grass pollen, indicating inhibited disease progression.

R&D milestones in 2016

Jan
- Top-line results from *GRAZAX® Asthma Prevention* trial released
- ACARIZAX® launched in Europe

Apr
- The FDA accepts MSD's Biologics License Application for the HDM SLIT-tablet in the USA
- Results from pivotal Phase III clinical trial evaluating ACARIZAX® in asthma published in the *Journal of the American Medical Association* (JAMA)

May
- MSD submits New Drug Application for HDM SLIT-tablet in Canada

H2
- Abbott submits registration applications for ACARIZAX® in seven South-East Asian countries

Jul
- ACARIZAX® approved in Australia

Sep
- Initiation of Phase III clinical trial with tree SLIT-tablet in Europe

Asthma, a global scourge

According to market research, asthma affects some 300 million people worldwide. Of these, approximately 50% suffer from allergic asthma.

Asthma often starts early in life and is the most common chronic lower respiratory disease in children. It is typified by a persistent inflammation of the lower airways, where the bronchial mucosa swells, narrowing the airways and reducing the air supply to the lungs. Symptoms include shortness of breath, wheezing, tightness in the chest, and coughing.

Recent advances in the symptomatic treatment of asthma have seen the introduction of several new biological drugs for severe asthma. However, these drugs do not modify the underlying cause of the allergic asthma.

AIT in asthma: A new treatment modality

In people with allergy, Immunoglobulin E (IgE) antibodies are produced by the immune system in response to allergens and play a key role in allergic diseases such as asthma. As a result, IgE-mediated immunologic pathways have long represented an attractive biological target for the treatment of respiratory diseases.

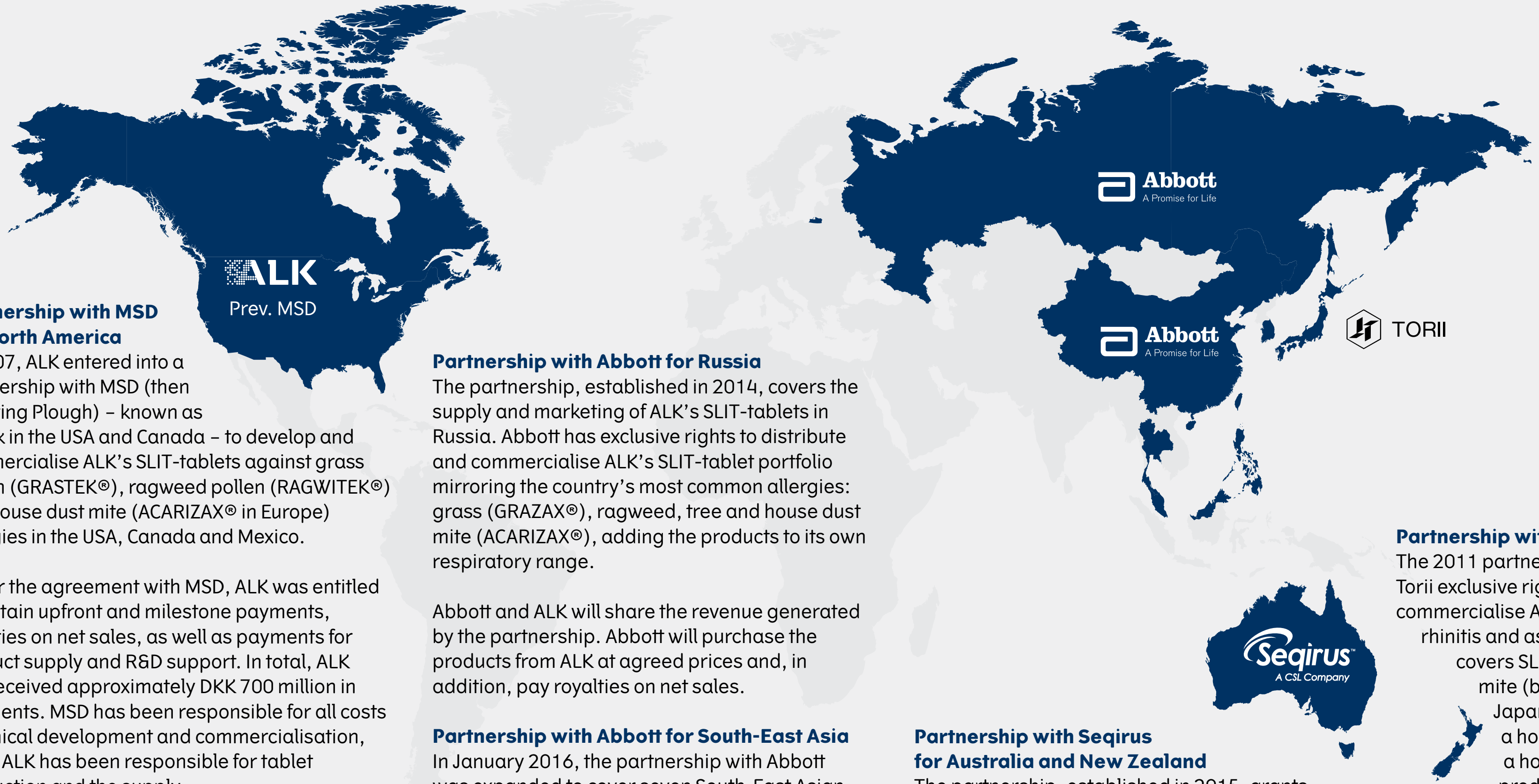
AIT works by introducing well-defined quantities of the relevant allergen to the body, gradually 're-educating the immune system' and inducing tolerance through immune modulation and the production of competing IgE-blocking antibodies. Studies show that this has an effect on both allergic rhinitis and allergic asthma, with further indications that if administered to those at risk, especially young children, AIT may also have a role in preventing the development of asthma symptoms.

Today, asthma is defined and managed according to specific medical guidelines. No curative treatment exists and asthma is typically managed by gradually adding symptomatic treatments depending on the severity of the disease. AIT, however, can address the root cause of the allergy that underlies a patient's asthma, thus introducing a potential paradigm shift in asthma treatment. To be implemented, this would require a major change in current clinical practice, and ALK will work with key organisations and individuals to advocate that treatment guidelines be updated with the latest evidence.

ALK's pioneering work on AIT in asthma

- The ACARIZAX® **MT-02** trial gave the first demonstration of AIT's effect on asthma (reduced use of inhaled corticosteroids) in a large, randomised, double-blind, placebo-controlled clinical trial.
- The ACARIZAX® **MT-04** trial demonstrated that the treatment significantly reduced the risk of a moderate or severe asthma exacerbation in patients with house dust mite-induced asthma.
- In 2015, **ACARIZAX®** became the first and only HDM SLIT-tablet to be indicated for both allergic rhinitis and allergic asthma.
- The *Journal of the American Medical Association* (JAMA) published key clinical data on the case for using ACARIZAX® to treat house dust mite-induced allergic asthma.
- The *GRAZAX® Asthma Prevention* (GAP) trial showed a significant reduction in the proportion of children experiencing asthma symptoms and/or the need to use asthma medication.

ALK’s SLIT-tablet partnerships



Partnership with MSD for North America

In 2007, ALK entered into a partnership with MSD (then Schering Plough) – known as Merck in the USA and Canada – to develop and commercialise ALK’s SLIT-tablets against grass pollen (GRASTEK®), ragweed pollen (RAGWITEK®) and house dust mite (ACARIZAX® in Europe) allergies in the USA, Canada and Mexico.

Under the agreement with MSD, ALK was entitled to certain upfront and milestone payments, royalties on net sales, as well as payments for product supply and R&D support. In total, ALK has received approximately DKK 700 million in payments. MSD has been responsible for all costs of clinical development and commercialisation, while ALK has been responsible for tablet production and the supply.

On 26 July 2016, it was announced that the partnership would be terminated and would be phased out over a six-month period, with all rights to the three products reverting to ALK by January 2017. MSD will complete the ongoing clinical trial with RAGWITEK® in children and the ongoing registration processes for the HDM SLIT-tablet will also continue with increased involvement from ALK.

Partnership with Abbott for Russia

The partnership, 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 mirroring the country’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 the 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 Asian 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.

Partnership with Seqirus for Australia and New Zealand

The partnership, 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 the approval of ACARIZAX® in Australia (21 July 2016). ALK is responsible for product supply and will sell products to Seqirus at an agreed price structure, ensuring a split of the final in-market revenue generated by Seqirus.

Partnership with Torii for Japan

The 2011 partnership agreement 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 allergies, as well as a house dust mite SCIT product and a house dust mite allergy 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.

Strategy update

ALK is transforming from a largely European company focused on the prevention and treatment of allergic rhinitis, into a global company with a range of evidence-based products which – in addition to allergic rhinitis – also treat allergic asthma. At the heart of this strategy has been the development of a portfolio of SLIT-tablets and a network of partnerships spanning the globe. With regulatory approvals for the SLIT-tablets nearing completion in the major markets, a stronger foundation for growth has been established. ALK's focus is now increasingly turning to market-shaping, commercialisation and other growth efforts. ALK's strategy aspires to double the number of patients using its products from around 1.5 million to roughly 3 million by the middle of the next decade.

Global imperatives

While each of ALK's sales regions – Europe, North America and International markets – has its unique challenges and opportunities, there are three strategic imperatives underpinning ALK's ambitions to build substantially larger and stronger operations worldwide in the years to come.

A successful globalisation of ACARIZAX®: With its unique profile, ACARIZAX® has the potential to pioneer market entries and facilitate a much stronger role for AIT in asthma. Asthma is seen as both a long-term growth driver in current markets and a vehicle to unlock underdeveloped AIT markets.

A patient- and prescriber-centric transformation that establishes AIT in the wider healthcare community: ALK will increasingly focus R&D and sales & marketing resources on establishing solutions that increase the awareness and acceptance of evidence-based AIT and that make these treatments more accessible.

A robust product supply chain to facilitate growth: ALK will continue to invest in ensuring that its manufacturing operations are efficient, scalable, compliant, and continue to meet the expectations of regulators and partners.

Moreover, ALK will explore possible adjacencies to its core AIT franchise around the world. This includes the possible acquisition of complementary products and services to help build critical mass in sales and distribution.

Extend leadership in Europe

European markets continue to be volatile, with increasing regulatory requirements and ever more stringent quality standards expected to lead to the withdrawal of many undocumented products in the short-term and promote industry consolidation over the medium-term. ALK is well placed to benefit from these trends and extend its market leadership, focusing its portfolio on registered, scientifically proven treatments and investing further in manufacturing capacity, equipment and quality documentation.

In 2016, market volatility largely played out in ALK's favour and resulted in significant market share gains in Eastern and Southern Europe, including France. The immediate goal is to lock-in as much of these gains as possible so ALK will deploy additional sales and marketing resources to key European markets while continuing to expand its coverage in the newer Eastern European growth markets.

ALK will lead the market transformation towards evidence-based care and work to gain further support for this approach among regulatory authorities, key opinion leaders, payers and in medical guidelines. While slimmer than in the past, ALK's portfolio will continue to include a full range of treatment options, including SCIT, SLIT-drops, SLIT-tablets and diagnostics, and ALK will continue to invest in all of these product types.

Widening patient access to AIT is imperative and ACARIZAX® is key to these ambitions. Besides addressing a substantial unmet medical need, its adoption by other medical specialities could provide patients with access to AIT in territories where allergy specialists are short in supply. Hence, ALK will work towards expanding the number of specialists prescribing ACARIZAX® and other SLIT-tablets.

Short-term initiatives in Europe include:

- Deploying additional sales resources to selected markets
- Continuing the expansion in Eastern Europe
- Building markets ahead of new ACARIZAX® launches
- Initiating paediatric development of ACARIZAX® in asthma and allergic rhinitis
- Extending marketing authorisation of ACARIZAX® to include adolescents
- Completing a pivotal Phase III trial with the tree SLIT-tablet

Medium-term, ALK is committed to launching the tree and ragweed SLIT-tablets in Europe and investing in clinical development to obtain regulatory approvals for the use of all tablets in children and adolescents. Recent clinical data for GRAZAX® has also shown encouraging signs of benefits in the prevention of asthma symptoms.

Build-up in North America

ALK is targeting sustained growth in North America, based on its existing range of allergenic extracts and diagnostic products, the newly added SLIT-tablets and a potential further broadening of the product offering. The repatriation of GRASTEK®, RAGWITEK® and the HDM SLIT-tablet represents the largest opportunity in this region and ALK is building its organisational footprint to facilitate this repatriation and grow tablet sales.

The slow market entries for GRASTEK® and RAGWITEK® have demonstrated that structural market barriers must be overcome before these products succeed. ALK will be piloting new market approaches and assimilating lessons learned in order to establish a long-term business model that can replicate successes on a larger scale. Building on its strong network among allergists and clinics, ALK's starting point is an approach that supports allergists in retaining more patients on treatment with a broad range of AIT solutions and other products provided by ALK.

The newly acquired Allergy Laboratories and Crystal Laboratory are important in this context as they strengthen ALK's North American set-up with certain allergenic extract and auxiliary products. The HDM SLIT-tablet, once approved, will augment the tablet portfolio so that it targets the three major respiratory allergies, and will further broaden ALK's product offering. ALK will continue its work to secure approval for the HDM SLIT-tablet, add a paediatric indication to the label, and explore possibilities to secure approval for use in allergic asthma.

Short-term initiatives in North America include:

- Adding approximately 50 new employees to support the SLIT-tablet franchise
- Exploring synergies in the integrated tablets/allergenic extracts business
- Preparing for the anticipated launch of the HDM SLIT-tablet
- Initiating paediatric development of the HDM SLIT-tablet

Further initiatives to broaden ALK's product offering and help build critical mass will be considered. Meanwhile, ALK will be developing its long-term commercial strategy to secure value creation. These strategic considerations will include different partner models to supplement ALK's own sales organisations.

Expand reach in International markets

AIT is still largely in its infancy outside Europe and North America but the long-term potential in International markets is considerable. When market conditions are right, ALK will continue to expand its global footprint into selected new markets to secure future growth opportunities.

China, Japan, Turkey, Russia and Asia-Pacific represent the first wave of 'AIT-ready' growth markets and ALK has established a presence in each, directly or via partnerships. Early results are encouraging although challenges are to be expected given the novelty of AIT in these markets. The sales and distribution collaboration with Eddingpharm for China did not meet expectations and a new distributor has been appointed. ALK will take a stronger role in sales and marketing in China concurrently with its work on the registration of ACARIZAX®. China holds significant long-term potential, given the vast number of people suffering from house dust mite respiratory diseases in metropolitan areas.

Short-term initiatives in International markets include:

- Establishing operations in the Middle East
- Strengthening the organisation in China to support the new sales and distribution set-up
- Supporting partners in the registration and commercialisation of the SLIT-tablets. A series of launches is scheduled in Japan, Australia, South-East Asia and Russia over several years, starting in 2017

Longer-term, ALK's geographical expansion will most likely include Latin America. Expansion in all markets will be driven by registered products and spearheaded by ACARIZAX®.

R&D: Broadening the focus

Securing registration of the SLIT-tablet portfolio in all sales regions and further evidencing the treatments' use in asthma and children are immediate R&D priorities. In parallel, ALK will widen its R&D focus to support the scientific and clinical positioning of its overall portfolio, with the aim of increasing the awareness and endorsement of evidence-based AIT within the wider healthcare community. Life-cycle management activities for existing products will also constitute a significant share of R&D investments.

STRATEGY UPDATE:

ALK's path to long-term growth

EU market shaping

Document the burden of disease

Scientific support for evidence-based care
- Key opinion leader' engagement
- Medical guidelines
- Registered products
- Standardised portfolio

Market access
- Reimbursement of SLIT-tablets
- Payer endorsement of evidence-based care
- Market consolidation

EU market expansion

From allergic rhinitis to also include allergic asthma

Prescriber expansion
- Pulmonary and paediatric

Patient expansion
- Children and adolescents
- Unlock new markets
- Asthma indications

Increase healthcare professionals' and patients' engagement

North American build-up

Grow allergenic extracts business

Grow SLIT-tablets sales
- Pilot → learn → scale
- HDM SLIT-tablet launch
- Children and adolescents
- Asthma indication

Decide on long-term business model

Geographical expansion

Registered products only
- Commercialisation of SLIT-tablets

Current focus areas
- Japan (Torii)
- China
- Turkey
- Australia (Seqirus)
- South-East Asia (Abbott)
- Russia (Abbott)
- Eastern Europe

Future focus areas
- Middle East
- Latin America

Global

Build critical mass
- Adjacencies: Complementary products and services to help build critical mass in sales and distribution
- Adrenaline auto-injector Jext® as additional asset to support new market entries

2017 outlook

2016 was an exceptionally good year for ALK, characterised by events that disrupted the status quo in the existing AIT markets and brought new opportunities so that ALK noticeably extended its market leadership. However, the year also brought challenges. In particular, the need to establish a new business model for North America and the need to upgrade ALK's product supply to support future sales growth.

2017 will see significant investments and cost increases as ALK seeks to consolidate its market position and advance its long-term growth plans. ALK will also continue to build capacity and secure the robustness of its product supply. By doing so, ALK will be well placed to take advantage of an expected new wave of industry consolidation, largely driven by increased regulatory and quality requirements.

These additional growth investments fall into three main categories:

1. The scale-up of ALK's North American organisation for the repatriated SLIT-tablets: ~DKK 150 million in additional sales & marketing, R&D and administrative expenses. This includes the hiring of approximately 50 additional employees in areas such as sales, medical affairs, market access, clinical development, pharmacovigilance and administration, as well as activities in support of the anticipated launch of the HDM SLIT-tablet in North America.
2. Market shaping and expansion: ~DKK 50 million in additional sales & marketing and R&D expenses to fund expansion in existing and new markets, to secure new registrations and market access for ACARIZAX®, initiate the ACARIZAX® Phase III asthma and rhinitis paediatric development, and complete Phase III development of the tree SLIT-tablet. Expenses also cover the expansion and digitalisation of ALK's patient support programmes as well as transformation work towards evidence-based medicines.
3. Capacity expansion and Product Supply robustness: ~DKK 75 million of extra costs in product supply (excluding the effect of the recent acquisitions) and additional capital expenditure of DKK 150-200 million to future-proof ALK's global product supply and establish a robust growth platform. Activities include additional staff and capacity upgrades in Denmark, France and the USA, as well as a general quality and compliance upgrade programme. Capital expenditure includes ramping-up SLIT-tablet production, primarily for ACARIZAX®, and the API manufacturing plant for the tree SLIT-tablet, further improvements in manufacturing of the adrenaline auto-injector Jext®, and related digitalisation of processes and workflow.

ALK will continue its efforts to improve operational efficiencies and capture cost savings. Costs related to one-off restructuring initiatives will be reported under the relevant item line and not as special items, which has been the custom previously.

In light of the above, ALK expects 2017 revenue of DKK 2.8-3.0 billion (2016: DKK 3.0 billion). Reported operating profit (EBITDA) is expected at approximately DKK 300 million (2016: DKK 642 million), reflecting the significantly increased investments to build ALK's long-term growth opportunities and a changed sales mix.

Anticipated revenue dynamics

ALK expects European revenue to decline compared with 2016 (DKK 2,434 million) as the markets gradually establish a 'new normal' after the market disruptions which contributed positively to ALK's 2016 sales and earnings. Nevertheless, ALK expects to retain the majority of these gains and anticipates 2017 revenue to be significantly higher than in 2015 (DKK 1,937 million) before the temporary competitor issues emerged. Revenue is assumed to be affected negatively by the temporarily reduced production capacity caused by the 2016 upgrades to SCIT production.

Revenue in North America (2016: DKK 512 million) is expected to increase, driven by sales of allergen extracts and other products, including the effect of the recent acquisition, and by the addition of sales from SLIT-tablets. In-market sales from SLIT-tablets will now be fully recognised in revenue, where previously ALK only recognised sales royalties based on MSD's in-market sales.

Revenue in International markets (2016: DKK 59 million) is also projected to increase as a result of sales growth in existing markets and expansion into new markets.

No milestone or upfront payments are expected in 2017 (2016: DKK 38 million). Other income from partnerships – product supply, sales royalties and service fees – has been included in the outlook above.

Financial outlook

DKK	2016 actuals	2017 outlook	Comments
Revenue	3.0 billion	DKK 2.8-3.0 billion	Declining EU sales; increasing sales in North America and International markets. Forecast includes effect of recent US acquisition
Gross margin	67%	↓	Changing product mix and increasing fixed cost of production
Sales & marketing expenses	893 million	↑	Significant growth investments in North America and in market-shaping and expansion activities
Administrative expenses	198 million	↑	North American build-up and IT support for Product Supply. New CEO sign-on
R&D expenses	385 million	↑	Two Phase III clinical trials, life-cycle management activities and additional resources for North American build-up
EBITDA	642 million	~300 million	
CAPEX	204 million	DKK 350-400 million	Accelerated investments in capacity expansion and supply chain robustness
Free cash flow	201 million	Down to minus DKK 500 million	Reflecting larger CAPEX programme and significant business investments (incl. recent acquisitions and continued inventory build up) and relatively high tax payments
Proposed dividend	51 million	51 million	The Board of Directors proposes to the Annual General Meeting that an ordinary dividend of DKK 5 be paid out for the 2016 financial year

Investments & cash flow

CAPEX is projected to exceed the level of 2016 (2016: DKK 204 million) reflecting accelerated investments in capacity and compliance upgrades and other ongoing projects.

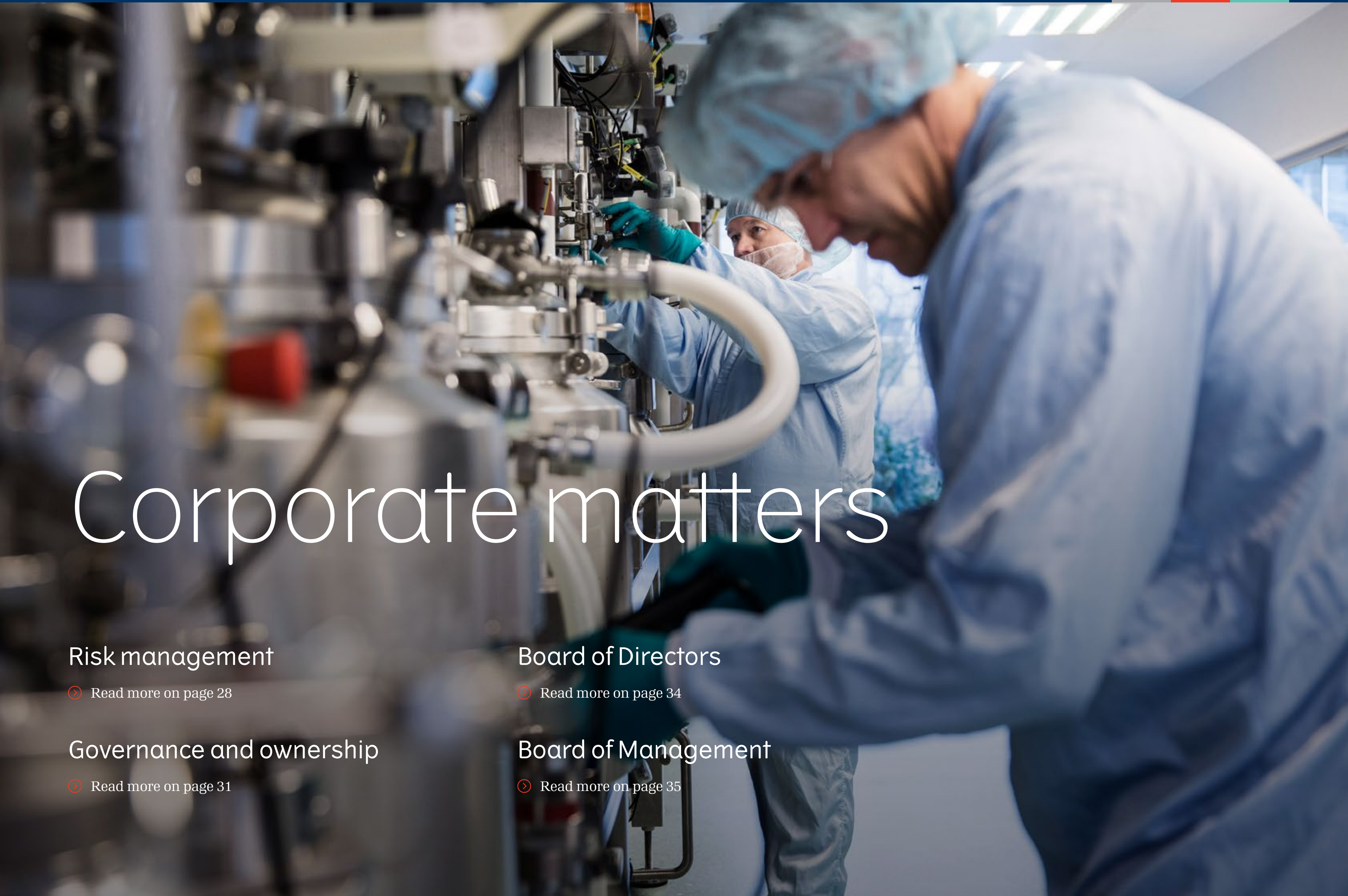
Free cash flow is expected to be down to minus DKK 500 million as a consequence of the accelerated CAPEX-programme and significant business investments as well as relatively high tax payments. The free cash flow guidance also assumes that the recent acquisitions will be paid in 2017 and later as well as a continued inventory build up.

The outlook is based on current exchange rates.

Forward-looking statements

This report contains forward-looking statements, including forecasts of future revenue and operating profit, as well as expected business-related events. Such statements are subject to risks and uncertainties as various factors, some of which are beyond ALK's control, may cause actual results and performance to differ materially from the forecasts made in this report.

Without being exhaustive, such factors include general economic and business-related conditions including legal issues, uncertainty relating to demand, pricing, reimbursement rules, partners' plans and forecasts, fluctuations in exchange rates, reliance on suppliers, as well as changes to market structures. An additional factor would be the consequences of potential side effects from the use of ALK's products, as AIT products may be associated with allergic reactions of differing extents, durations and severities.



Corporate matters

Risk management

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Board of Directors

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Governance and ownership

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Board of Management

Read more on page 35

Risk management

ALK's Board of Management is responsible for the ongoing management of risks, 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 given 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 company's ability to maintain current products and successfully identify, develop and market new, innovative drugs. A pharmaceutical drug must be subjected to extensive and lengthy clinical trials to document aspects such as safety and efficacy before the drug 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 strategic partners perform thorough risk assessments of their research and development programmes throughout the development and registration processes with the objective of risk mitigation to optimise the likelihood of the products reaching the market.

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 controls, may therefore have a significant impact on the company's earnings capacity. ALK actively engages in dialogue with the authorities with the aim of securing fair pricing and reimbursement agreements.

Commercialisation

If ALK and its strategic partners succeed in developing new products and obtaining regulatory approval for them, the ability to generate revenue depends on the products being accepted by doctors and patients. The degree of market acceptance of 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 company's ability to generate revenue.

ALK regularly conducts extensive surveys of market conditions and similar factors and expends significant resources on providing information on its products to doctors and patients. Commercialisation is a crucial part of the company's strategic basis and strategic 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 company'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 monitoring, 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 for allergy, it may have a material impact on ALK's sales. A competitive market may also lead to market-driven price reductions just as the regulatory 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 diversification 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 the regulatory authorities as a regular part of their monitoring process in order to ensure that all manufacturers observe the prescribed requirements and standards. Meeting these quality standards is a prerequisite for the company's competitive strength. ALK's production processes and quality standards have been developed and optimised over many years. Production processes and quality standards are furthermore regularly audited by strategic partners.

Dependence on third parties
ALK has partnership agreements with third parties with a view to commercialising the company'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 strategic partners may entitle ALK to receive certain milestone payments. These payments depend on continuing favourable results in the development and commercialisation of the pharmaceutical products to which ALK's partners hold the rights. Moreover, reliance on suppliers and third-party manufacturers entails risks. 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 relies on being able to attract and retain employees in key positions. A loss of key employees may have a material impact on the company'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 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 company 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.

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 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 25 of this annual report for a specification of the Group's exposure to currency, interest rate and credit risks and the 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 GBP. In 2016, 14% of ALK's revenue was denominated in USD, 1% in GBP and 73% in EUR. ALK's sales are not deemed to be exposed to EUR due to Denmark's participation in the European Exchange Rate Mechanism.

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

DKKm	Revenue	EBITDA
USD	Approx. +60	Approx. +5
GBP	Approx. +5	Approx. +3

The table above shows the estimated effect of a 10% increase in the USD and GBP exchange rates 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.

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, cash and marketable securities stood at DKK 840 million. An increase in the interest level by 1 percentage point on cash and marketable securities would consequently decrease profit and loss and equity by approximately DKK 3 million. It is not expected that the interest rate exposure will be hedged as this is not considered financially viable.

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

Credit exposure

The credit exposure in connection with financial instruments is managed by contracting only with institutions with satisfactory creditworthiness, 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's Statutory Corporate Governance Statement for the financial year 2016, 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 the recommendations or by explaining the reason for non-compliance. ALK complies with 46 of the 47 recommendations. The Board of Directors' 'comply or explain' review is available at http://ir.alk.net/corporate-governance.cfm#aGuidelines

At the annual general meeting in March 2016, Steen Riisgaard was re-elected Chairman of the Board of Directors and Lene Skole was re-elected Vice Chairman of the Board of Directors. Lars Holmqvist, Anders Gersel Pedersen, Jakob Riis and Per Valstorp were re-elected as members of the Board of Directors.

Corporate Social Responsibility

ALK's Statutory Report on Corporate Social Responsibility for the financial year 2016, 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 foundation for Corporate Social Responsibility at ALK, namely the CSR policy and the Code of Conduct. In 2016, ALK's CSR policy was updated, integrating our efforts and ambitions relating to the UN Sustainable Development Goals:

- 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 addition, a risk analysis of our activities has been conducted for the countries ALK operates in, in relation to the environment and climate, anti-corruption, and human and labour rights.

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 CSR policy is implemented via various policies and procedures, including HR policies, EHS (Environment, Health and Safety) action plans and organisations, quality procedures etc.

Shareholder information

The aim is that the share price should offer a fair presentation 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 and B shares (cf. core data table below). The A shares are not listed and are predominantly held by Lundbeckfonden, while all B shares are listed and freely negotiable.

At the end of the year, ALK had 14,623 registered shareholders, largely unchanged from 2015 (14,695). The registered shareholders own 96% of the share capital (96).

Core data for the share

Share capital	DKK 101,283,600
Nominal value per share	DKK 10
Number of A shares	920,760 units with 10 votes per share
Number of B shares	9,207,600 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

As of 31 December 2016, three shareholders have notified shareholdings of 5% or more: Lundbeckfonden has a 40.3% interest (including A shares), ATP has a 5.9% interest, and Jupiter Asset Management Ltd. has a 5.0% interest. 29 of the 30 largest registered shareholders are international institutional investors, from North America, the UK and Scandinavia in particular. In the shareholder register, the international ownership is estimated at approximately 22% (22), representing 37% of the free float of the B share capital (39), 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 296,844 or 2.9% of its own shares (3.6% at the end of 2015) which is considered sufficient to cover current obligations related to ALK's long-term incentive programmes.

Return and liquidity

ALK aims to provide long-term shareholder return through an increased share price, the paying-out of dividends and the purchase of its own shares.

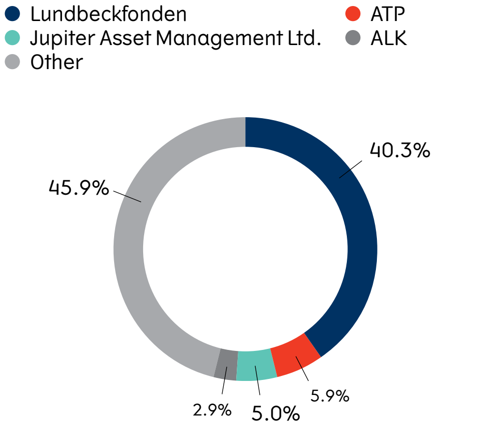
At the end of 2015, the share price was DKK 876 and the share closed 2016 at DKK 920. Including payment of a dividend of DKK 5 per share, the return on each ALK share was 6%. By comparison, the Danish benchmark OMXC20 CAP index decreased by 2% while the Nordic MidCap index increased by 7%.

Notified shareholdings of 5% or more of the company's shares as of 31 December 2016

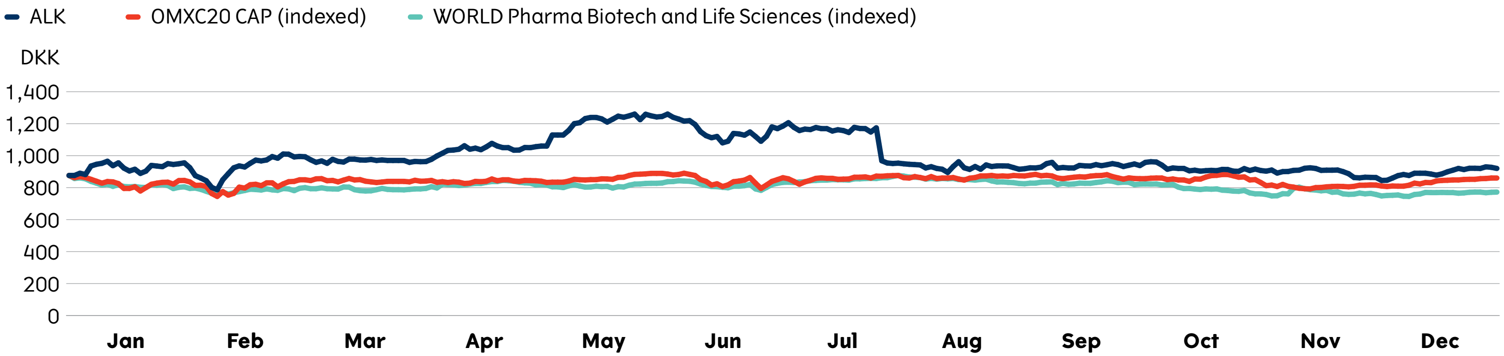
	Registered office	Number of shares	Interest	Votes
Lundbeckfonden	Copenhagen, Denmark	920,720 A shares 3,158,935 B shares	40.3%	67.2%
ATP*	Hillerød, Denmark	594,466 B shares	5.9%	3.2%
Jupiter Asset Management Ltd.	London, United Kingdom	509,788 B shares	5.0%	2.8%
ALK – own shares	Hørsholm, Denmark	296,844 B shares	2.9%	-

* The Danish Labour Market Supplementary Pension

Shareholders



The ALK share in 2016



Dividend and capital structure

The Board of Directors submits a recommendation for the dividend on the basis of ALK's earnings, risk, strategy, capital resources, investment plans and prospects. At the annual general meeting in March 2017, the Board of Directors proposes an unchanged dividend of DKK 5 per share.

The Board of Directors reviews ALK's capital structure on an ongoing basis. The Board considers that the current capital structure is appropriate, relative to ALK's strategy. ALK is well consolidated, with strong liquidity, reasonable debt obligations and stable earnings. Consequently, ALK is able to make the necessary investments in R&D, supply chain and growth initiatives, and this financial strength also facilitates acquisitions.

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, etc. ALK furthermore 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 300 individual meetings with analysts and investors in 2016, and also presented at various investor conferences.

During the year, ALK published 31 company announcements (24), 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, etc. Registered shareholders are encouraged to sign up at the InvestorPortal.

Financial calendar 2017

Annual general meeting	15	March
Payment of dividend	20	March
Three-month interim report (Q1)	9	May
Six-month interim report (Q2)	16	August
Nine-month interim report (Q3)	10	November

LUNDBECKFONDEN

Better lives through new knowledge

Lundbeckfonden

Lundbeckfonden is one of the largest industrial foundations in Denmark with the total market value of its commercial activities estimated at more than DKK 60 billion and an annual spend of DKK 400-500 million in grants to support biomedical research of the highest international quality. 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 15 billion.

Lundbeckfonden also invests in European and American life-science companies and supports a range of early stage investment projects through Lundbeckfonden Emerge. 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 European neuroscience and who are still active in research.

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

BOARD OF DIRECTORS AND BOARD OF MANAGEMENT

Board of Directors

Steen Riisgaard
Chairman of the Nomination Committee
Chairman of the Remuneration Committee

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

Directorships
COWI Holding A/S, *C*
Egmont International 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
Member of the Audit Committee
Member of the Nomination Committee

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

Directorships
Dong Energy A/S, *VC*
Falck A/S, *VC*
H. Lundbeck A/S, *VC*
Tryg Forsikring A/S

Lars Holmqvist*
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

Andreas Slyngborg Holst
EU QPPV Director of Pharmacovigilance Support, ALK-Abelló A/S
Employee-elected

Jacob Kastrup
Facility Manager, ALK-Abelló A/S
Employee-elected

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
Novo Nordisk A/S, Executive Vice President
Chairman of the Audit Committee

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

Directorships
Copenhagen Institute of Interaction Design, *C*

Katja Barnkob Thalund
Senior CMC Project Manager, ALK-Abelló A/S
Employee-elected

Per Valstorp
Member of the Audit Committee

Competences
Considerable experience in global production within the pharmaceutical industry and other sectors.

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

The Board of Directors' shares in ALK

	Born	Position	Board member since	Holding as at 31 December 2016	Changes during the year
Steen Riisgaard	1951	Chairman	2011	0	-
Lene Skole**	1959	Vice Chairman	2014	250	-
Lars Holmqvist**	1959	Board member	2015	0	-
Andreas Slyngborg Holst	1953	Board member	2015	238	+113
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	1,000	-
Total				**2,070**	**113**

* These board members are not regarded as independent in the sense of the definition contained in the Danish recommendations on Corporate Governance.

** Lene Skole and Lars Holmqvist are affiliated with Lundbeckfonden, which owns 40.3% of ALK

C = Chairman
VC = Vice Chairman

BOARD OF DIRECTORS AND BOARD OF MANAGEMENT

Board of Management

Carsten Hellmann
President & CEO

Henrik Jacobi
Executive Vice President, Research & Development

Søren Niegel
Executive Vice President, Commercial Operations

Flemming Pedersen
Executive Vice President & CFO

Directorships
Goodstream A/S

Helle Skov
Executive Vice President, Product Supply

The Board of Management's ownership interests in ALK as at 31 December 2016

	Born	Shares	Net changes during the year**	Options	Net changes during the year**	Conditional shares	Net changes during the year**
Carsten Hellmann*	1964	-	-	-	-	-	-
Henrik Jacobi	1965	1,058	525	8,855	-11,220	1,661	-584
Søren Niegel	1971	1,438	413	20,855	+2,180	1,661	-359
Flemming Pedersen	1965	-	-1,641	8,855	-27,020	1,661	-634
Helle Skov	1960	-	-	5,230	+2,180	1,661	+466
Total		**2,496**	**-703**	**43,795**	**-33,880**	**6,644**	**-1,111**

* Carsten Hellmann joined ALK on 1 January 2017
** 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 as well as conditional shares granted, less delivered and cancelled conditional shares

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 2016: The base fee is DKK 275,000, the Vice Chairman receives double the 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 – 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 2017.

As reported at the annual general meeting in March 2016, the Chairman of the Board of Directors received a special fee of DKK 85,000 per month in 2016 for undertaking extraordinary operational responsibilities from 22 February 2016 when Jens Bager resigned as President & CEO, until 1 January 2017, when Carsten Hellmann joined ALK as the new President & CEO.

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 2016. 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 are eligible for a performance-related cash bonus, capped at the equivalent of nine months' base salary for the CEO and six months' base salary for other Board of Management members. Cash bonuses are based upon key performance indicators critical to the continued growth of the business.

In addition, Board of Management members are eligible for share options and conditional shares. The total value of the granted options and shares may not exceed 30% of the combined base salaries and pension of the Board of Management. The Board of Directors will at the annual general meeting in 2017 present new guidelines to ensure that programmes are subject to the fulfilment of long-term corporate objectives.

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 review

Financial review

Read more on page 37

Financial review*

Full-year financial results were in line with ALK's most recent outlook, released on 4 January 2017.

Revenue increased by17% in DKK and 19% organically in local currencies to DKK 3,005 million (2,569). Revenue in the base business grew by 25% to DKK 2,918 million (2,384), driven by unusually high double-digit growth in Europe. By contrast, income from the SLIT-tablet partnerships was down 53% to DKK 87 million (185). This decline was foreseen, as milestone and upfront payments fell by DKK 78 million, while services income declined DKK 27 million due to lower R&D reimbursement, reflecting the tablet portfolio's advanced stage of development.

Cost of sales increased 19% in DKK and 20% organically in local currencies to DKK 994 million (836) and the DKK 2,011 million **gross profit** (1,733) yielded a gross margin of 67% (67). Disregarding milestone and upfront payments, the normalised gross margin of 66% (66) was positively influenced by higher sales volumes and economies of scale but these positive factors were offset by the cost of increasing production capacity, additional investments in compliance programmes as well as changes in the sales mix.

Capacity costs increased 3% in DKK and 4% organically in local currencies to DKK 1,476 million (1,440). R&D expenses and administrative expenses were largely unchanged. Sales and marketing expenses grew by 6% in DKK and 9% organically in local currencies following higher activity levels, including efforts to support the launch of ACARIZAX® as well as expansion in existing and new markets. The capacity costs-to-revenue ratio decreased to 49% (56) as a result of top-line growth, cost controls and initiatives to drive efficiency improvements.

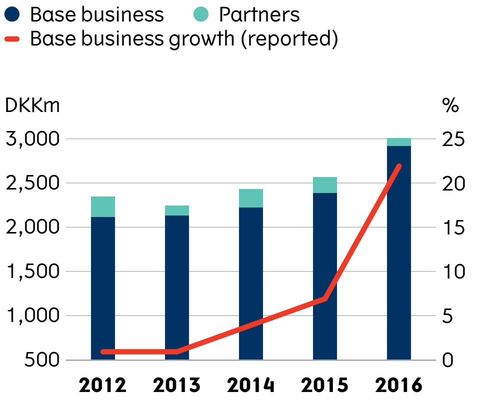
Operating profit improved, prompted by top-line growth, economies of scale and cost control – positive factors which offset the lower milestone payments. EBITDA (operating profit before depreciation and amortisation) before special items advanced to DKK 705 million (452) emphasising the earnings progress in the underlying business. Reported **EBITDA** increased to DKK 642 million (451). EBITDA before special items, sales royalties and milestone payments increased to DKK 659 million (331). Exchange rates had a DKK 3 million negative effect on reported EBITDA.

Special items of DKK 63 million (1) related to *Simplify* projects and severance pay to the former CEO. In direct comparison, special items in 2015 included a net gain from the divestment of the European veterinary business.

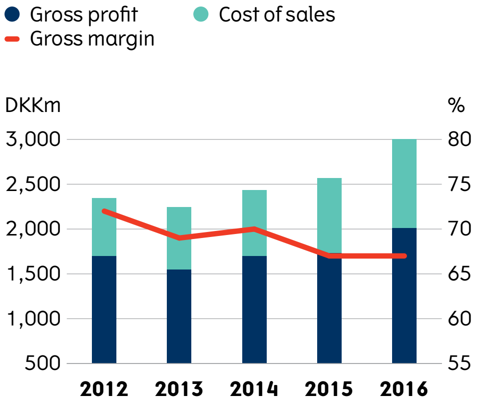
Operating profit (EBIT) was DKK 479 million (292), corresponding to an EBIT margin of 16% (11).

Net financials were a gain of DKK 8 million (gain of 108).

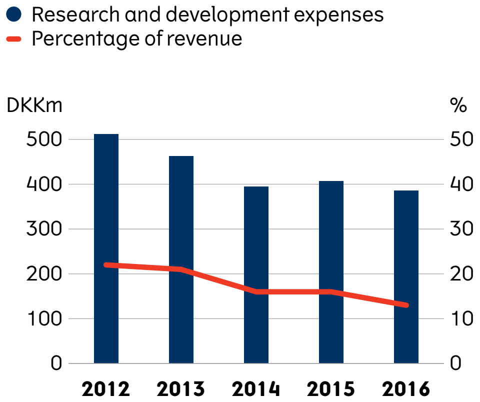
Total revenue



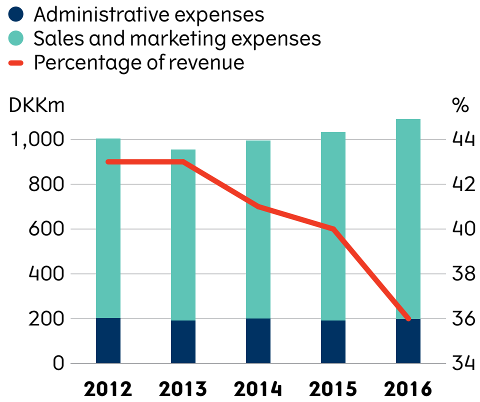
Gross profit



Research and development



Sales, marketing and administration



* Comparative figures for 2015 are shown in brackets. Revenue growth rates are shown as organic growth in local currencies unless otherwise stated.

Tax on profit was DKK 217 million vs. DKK 56 million last year, which was impacted by a one-off positive adjustment of DKK 73 million. The high effective tax rate of 45% in 2016 is the result of the current geographical distribution of income.

Due to substantially lower financial gains and considerably higher taxes, the improvement in operating profits did not carry over to ALK's **net profit**. Net profit was DKK 270 million (344).

Cash flow from operating activities was an inflow of DKK 405 million (an inflow of 183 million). The increase was due to higher profitability in the base business.

Cash flow from investment activities was an outflow of DKK 204 million (an outflow of 165) which primarily related to the build-up of capacity for tablet production and investments in capacity and compliance upgrades, which were partly offset by the divestment of a facility in the USA.

Consequently, free cash flow was an inflow of DKK 201 million (an inflow of 18 million).

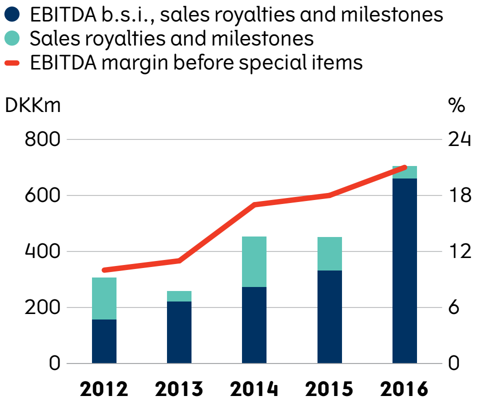
Cash flow from financing was an inflow of DKK 39 million, related to a re-financing of a loan from the European Investment Bank with positive net proceeds of DKK 147 million, the dividend payment of DKK 5 per share, and the net cash settlement of share options. In direct comparison, the DKK 298 million cash inflow from financing activities in 2015 was impacted by ALK securing a mortgage-backed loan of DKK 349 million.

ALK's holding of its **own shares** was reduced following the settlement of share options and conditional shares. At year-end, ALK held 296,844 of its own shares, corresponding to 2.9% of the share capital (361,051 own shares and 3.6% of the share capital at the end of 2015).

At the end of the year, **cash and marketable securities** totalled DKK 840 million vs. DKK 608 million at the end of 2015. At the beginning of 2017, ALK took over two US-based companies (Allergy Laboratories, Inc. and Crystal Laboratory LLC). The purchase price of USD 20 million (DKK 138 million) will be paid in 2017 and later.

Equity totalled DKK 2,875 million (2,697) at the end of the year and the equity ratio was 60% (63).

EBITDA before special items



Guidance history 2016

ALK revised its full-year guidance three times in 2016 and again on 4 January 2017. The changes were predominantly prompted by the unfolding market situation in Europe where higher than expected sales and order intake impacted full-year guidance for revenue, growth rates, operating profit and free cash flow. In addition, guidance on special items was revised in May to include severance pay to ALK's former CEO.

DKK	9 Feb 2016	4 May 2016	16 Aug 2016	10 Nov 2016	4 Jan 2017	Actual results
Total revenue	n.a.	n.a.	>2.9bn	>2.9bn	~3bn	3.0bn
Base business growth	~10%	~15%	~20%	>20%	~25%	25%
EBITDA b.s.i.*	~450m	~575m	>600m	>650m	>700m	705m
Special items	~30m	~50m	~50m	~50m	n.a.	63m
Free cash flow	Level with 2015	Higher than 2015	50-100m	100-150m	n.a.	201m
CAPEX	~200m	~200m	~200m	~200m	n.a.	204m

* EBITDA guidance in February and May excluded additional milestone payments and sales royalties.

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 2016.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the financial statements of the parent company have been prepared in accordance with the Danish Financial Statements Act. In addition, the annual report has been prepared in accordance with Danish disclosure requirements for 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 2016 as well as of their financial performance and the Group's cash flow for the financial year 1 January to 31 December 2016.

We believe that the management review contains a fair review of the development and performance of the Group's and the Parent's business and of their position as well as 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, 7 February 2017

Board of Management

Carsten Hellmann
President & CEO

Henrik Jacobi
Executive Vice President
Research & Development

Søren Niegel
Executive Vice President
Commercial Operations

Flemming Pedersen
Executive Vice President
CFO

Helle Skov
Executive Vice President
Product Supply

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

For the independent auditor's report

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 2016 to 31 December 2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent and the consolidated cash flow statement and the consolidated statement of comprehensive income. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

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

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

Basis for opinion

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

Key audit matters

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

Valuation of inventories

Refer to notes 2 and 15 in the consolidated financial statements.

At 31 December 2016, inventories of the Group amount to DKK 676 million (31 December 2015: DKK 520 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, the ability to successfully commercialise the brand and obtaining the required regulatory approvals, and is therefore to a wide extent based on assumptions and judgement made by Management. Consequently, there is a risk that inventories will be impaired if the future cash flows and other assumptions do not meet Management's expectations.

How the matter was addressed in the audit

Based on our risk assessment, we have obtained the Group's inventory valuation model and tested the reasonableness of the key assumptions, in particular future revenue projections, the impact of the expiry dates of the inventory and the probability of obtaining the required regulatory approvals. We have assessed and challenged Management's assumptions used in the inventory valuation model, including:

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

Carrying value of goodwill and other intangible assets in the parent financial statements
Refer to note 5 in the parent financial statements.

At 31 December 2016, the Parent has goodwill of DKK 730 million (31 December 2015: DKK 817 million) arising from the internal transfer of the adrenaline business in 2015 and other intangible assets of DKK 187 million (31 December 2015: DKK 160 million), compromising software, patents, trademarks, rights and development projects.

The carrying value of goodwill is contingent on future cash flows and therefore relies on assumptions and judgement made by Management. The impairment review contains a number of significant judgements and estimates, including revenue growth, the success of the adrenaline business, profit margins and discount rate. Consequently, there is a risk that cash flows and other assumptions for the adrenaline business do not meet Management's expectations and that goodwill and other intangible assets will be impaired.

How the matter was addressed in the audit
Based on our risk assessment, we have obtained the Parent's impairment analysis for goodwill and other intangible assets and tested the reasonableness of key assumptions, including profit and cash flow growth, terminal values, etc. We have assessed and challenged Management's assumptions used in its impairment model for goodwill and other intangible assets, including:

- The forecast of future cash flow projections by discussing with Management and key employees.
- Obtained supporting documentation of judgement and key assumptions.
- Assessed significant judgements and compared them to the previous year to ensure consistency.
- Tested the mathematical accuracy of the calculations in the model.
- Obtained and evaluated Management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions, and we performed our own independent sensitivity calculations to quantify the downside changes to Management's models required to result in impairment.

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 responsibility 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 under the Danish Financial Statements Act, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act.

Management is also responsible 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 the preparation of 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 International Standards on Auditing and additional requirements applicable in Denmark will always detect a material misstatement when it exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit in accordance with International Standards on Auditing and 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 the preparation of 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, 7 February 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorised
Public Accountant

Dan Bjerregaard
State-Authorised
Public Accountant

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Consolidated financial statements

Notes

Income statement

Amounts in DKKm	Note	2016	2015
Revenue	3	3,005	2,569
Cost of sales	4-7,15	994	836
Gross profit		**2,011**	**1,733**
Research and development expenses	4-7	385	407
Sales and marketing expenses	4-7	893	843
Administrative expenses	4-7	198	190
Other operating income		7	-
Operating profit (EBIT) before special items		**542**	**293**
Special items	7	(63)	(1)
Operating profit (EBIT)		**479**	**292**
Financial income	8	22	122
Financial expenses	8	14	14
Profit before tax (EBT)		**487**	**400**
Tax on profit	9	217	56
Net profit		**270**	**344**
Earnings per share (EPS)	17		
Earnings per share (EPS) – DKK		27.51	35.45
Earnings per share (DEPS), diluted – DKK		27.24	34.95

Statement of comprehensive income

Amounts in DKKm	Note	2016	2015
Net profit		**270**	**344**
Items that will subsequently not be reclassified to the income statement:			
Actuarial gains/(loss) on pension plans	18	(17)	(4)
Tax related to actuarial profit/(loss) on pension plans		6	2
Items that will subsequently be reclassified to the income statement, when specific conditions are met:			
Foreign currency translation adjustment of foreign affiliates		8	(2)
Tax related to other comprehensive income, that will subsequently be reclassified to the income statement		-	(2)
Total		**(3)**	**(6)**
Total comprehensive income		**267**	**338**

Cash flow statement

Amounts in DKKm	Note	2016	2015
Net profit		**270**	**344**
Adjustments			
Adjustments for non-cash items	10	408	87
Changes in working capital	21	(87)	(86)
Net financial items, paid		-	(15)
Income taxes, paid		(186)	(147)
Cash flow from operating activities		**405**	**183**
Acquisitions of companies and operations	11	-	(12)
Additions, intangible assets	12	(46)	(46)
Additions, tangible assets	13	(179)	(153)
Sale of non-current assets		21	-
Sale of companies and operations	7	-	47
Change in other financial assets		-	(1)
Cash flow from investing activities		**(204)**	**(165)**
Free cash flow		**201**	**18**
Dividend paid to shareholders of the parent		(49)	(49)
Sale of treasury shares		47	68
Exercise of share options	5	(89)	(41)
Proceeds from borrowings		446	349
Repayment of borrowings		(316)	(29)
Cash flow from financing activities		**39**	**298**
Net cash flow		**240**	**316**
Cash beginning of year		176	81
Marketable securities beginning of year		432	208
Cash and marketable securities beginning of year		**608**	**289**
Unrealised gain/(loss) on foreign currency and financial assets carried as cash and marketable securities		(8)	3
Net cash flow		240	316
Cash year end		292	176
Marketable securities year end		548	432
Cash and marketable securities year end		**840**	**608**

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. 2016	31 Dec. 2015
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	12	422	423
Other intangible assets	12	342	336
		764	**759**
Tangible assets			
Land and buildings	13	774	771
Plant and machinery	13	412	419
Other fixtures and equipment	13	52	59
Property, plant and equipment in progress	13	389	322
		1,627	**1,571**
Other non-current assets			
Securities and receivables		8	8
Deferred tax assets	14	449	378
		457	**386**
Total non-current assets		**2,848**	**2,716**
Current assets			
Inventories	15	676	520
Trade receivables	16	295	273
Receivables from affiliates	27	22	30
Income tax receivables		26	14
Other receivables		66	65
Prepayments		26	26
Marketable securities		548	432
Cash		292	176
Total current assets		**1,951**	**1,536**
Total assets		**4,799**	**4,252**

Amounts in DKKm	Note	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	17	101	101
Currency translation adjustment		22	14
Retained earnings		2,752	2,582
Total equity		**2,875**	**2,697**
Liabilities			
Non-current liabilities			
Mortgage debt	19	310	327
Bank loans and financial loans	19	448	1
Pensions and similar liabilities	18	234	202
Other provisions	20	1	6
Deferred tax liabilities	14	124	100
		1,117	**636**
Current liabilities			
Mortgage debt	19	17	17
Bank loans and financial loans	19	-	300
Trade payables		132	81
Income taxes		167	73
Other provisions	20	36	22
Other payables		455	426
		807	**919**
Total liabilities		**1,924**	**1,555**
Total equity and liabilities		**4,799**	**4,252**

Equity

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	-	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**

Amounts in DKKm	Share capital	Currency translation adjustment	Retained earnings	Total equity
2015				
Equity at 1 January 2015	**101**	**16**	**2,237**	**2,354**
Net profit	-	-	344	344
Other comprehensive income	-	(2)	(4)	(6)
Total comprehensive income	**-**	**(2)**	**340**	**338**
Share-based payments	-	-	15	15
Share options settled	-	-	(41)	(41)
Sale of treasury shares	-	-	68	68
Tax related to items recognised directly in equity	-	-	12	12
Dividend paid	-	-	(51)	(51)
Dividend on treasury shares	-	-	2	2
Other transactions	**-**	**-**	**5**	**5**
Equity at 31 December 2015	**101**	**14**	**2,582**	**2,697**

Notes to the consolidated financial statements

1 Accounting policies

General

The consolidated financial statements for the period 1 January – 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. Additional Danish disclosure requirements for the 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.

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 2016. A number of IFRS standards, amended standards and IFRIC interpretations which are effective on or after 1 January 2017 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 in 2016 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 expects that the standard will have no significant impact on revenue recognition and measurement, while the level of disclosure is expected to increase. The ALK Group has decided not to pre-implement IFRS 15 for 2016.

IFRS 9 Financial Instruments is effective for financial years beginning on or after 1 January 2018. The ALK Group expects that the effect of IFRS 9 will be immaterial.

IFRS 16 Leases is effective for financial years beginning on or after 1 January 2019. The ALK Group has considered the new standard and assessed the impact for the ALK Group. The assessment shows, based on present leasing agreements, that the new requirements are estimated to result in an immaterial increase in the balance sheet figures as well as an immaterial 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 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. If the carrying amount of an asset exceeds its recoverable amount, the asset is written down to the lower recoverable amount.

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

Foreign currency translation
On initial recognition, transactions denominated in currencies other than the ALK Group's functional currency 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.

Notes to the consolidated financial statements

1 Accounting policies – continued

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. Non-monetary items revalued at fair value are translated at the exchange rates at the revaluation 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 and conditional share plans are measured at the grant date at fair value and recognised in the income statement under the respective functions over the vesting period. The balancing item is recognised 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 jointly taxation with Lundbeckfonden 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 the 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 the 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.

Special items
Special items include significant income and expenses of a special nature in terms of the ALK Group's revenue-generating operating activities, such as the cost of extensive restructuring, as well as gains or losses arising from disposals in this connection and termination benefits which have a material effect over a given period.

These items are shown separately in order to give a more true and fair view of the ALK Group's operating profit.

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/allowances 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. In addition, goodwill on acquisition of investments in subsidiaries from non-controlling interests is recognised.

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 planning work, including direct salaries.

Such acquired intellectual property rights are amortised on a straight-line basis over the contract period, not exceeding 10 years. If

Notes to the consolidated financial statements

1 Accounting policies – continued

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 and subject to limited risk are capitalised under other intangible assets as described under 'Research and development expenses' and are measured at cost less accumulated amortisation and impairment.

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

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

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

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 amortized 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.

Notes to the consolidated financial statements

1 Accounting policies – continued

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. An impairment 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.

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

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

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

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

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

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

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

Provisions
Provisions are recognised when, as a consequence of a past event during the financial year or previous years, the ALK Group has a legal or constructive obligation, and it is likely that settlement of the obligation will require an outflow of the 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 and trade 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 operating profit, adjusted for non-cash operating items and changes in working capital, less the income tax paid during the year attributable to operating activities.

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

Notes to the consolidated financial statements

1 Accounting policies – continued

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 'Recommendations and Financial Ratios 2015' issued by the Danish Finance Society. Definitions are shown on page 73.

2 Significant accounting estimates and judgements

In the preparation of the annual report according to generally accepted accounting principles, 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 financial statements for 2016, Management considers the following estimates and related judgements material to the assets and liabilities recognised in the 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 each cash-generating unit and a reasonable discount rate. At 31 December 2016, the carrying amount of goodwill is DKK 422 million (2015: DKK 423 million).

Indirect production overheads
Indirect production overheads (IPO) are measured on the basis of the standard cost method. The basis of standard costs is reassessed regularly to ensure that standard costs are adjusted for changes in the utilisation of production capacity, production times and other relevant factors. Changes in the method of determining standard costs may significantly affect gross margin and the valuation of inventories. At 31 December 2016, the value of IPO is DKK 255 million (2015: DKK 165 million) on the inventories.

The increase in IPO is mainly due to HDM-SLIT tablet inventory build up.

Tax
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. The ALK Group recognises deferred tax assets if it is probable that they can be set off against future taxable income. At 31 December 2016, the value of deferred tax assets is DKK 449 million (2015: DKK 378 million) and the value of deferred tax liabilities is DKK 124 million (2015: DKK 100 million).

Provisions and contingent assets and liabilities
Management assesses provisions, contingent assets and contingent liabilities as well as likely outcome of pending or probable lawsuits etc. on an on-going basic. The result depends on future events, which by nature are uncertain. In assessment of the likely outcome of lawsuits and tax disputes etc., management bases its assessment on established legal precedents and external legal advisors. In connection with restructuring, an assessment of the employee obligations and other liabilities occurring in connection with restructuring has been taken into account. As at 31 December 2016, other provisions amount to DKK 37 million (2015: DKK 28 million). Other provisions mainly include provisions for restructuring.

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	2016	2015	2016	2015	2016	2015	2016	2015
SCIT/SLIT-drops	1,881	1,536	281	265	28	44	2,190	1,845
SLIT-tablets	406	253	63	44	25	142	494	439
Other products and services	147	148	168	133	6	4	321	285
Total revenue	**2,434**	**1,937**	**512**	**442**	**59**	**190**	**3,005**	**2,569**
Sale of goods							2,931	2,393
Royalties							8	5
Milestone and upfront payments							38	116
Services							28	55
Total revenue							**3,005**	**2,569**
Base business revenue (i.e. total revenue excluding the SLIT-tablet partnerships in North America and International Markets)							2,918	2,384
Partner revenue							87	185
Total revenue							**3,005**	**2,569**

Of total revenue, DKK 49 million (2015: DKK 52 million) derived from Denmark.

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

	Europe		North America		International Markets		Total	
Amounts in DKKm	2016	2015	2016	2015	2016	2015	2016	2015
Non-current assets	**1,763**	**1,778**	**626**	**553**	**10**	**-**	**2,399**	**2,331**

Of total non-current tangible and intangible fixed assets, DKK 1,411 billion are assets in Denmark (2015 DKK 910 million). The geographical information on assets is based on asset location.

Notes to the consolidated financial statements

4 Staff costs

Amounts in DKKm	2016	2015
Wages and salaries	1,075	985
Pensions, cf. note 18	96	86
Other social security costs, etc.	156	132
Share-based payments, cf. note 5	12	15
Total	**1,339**	**1,218**
Staff costs are allocated as follows:		
Cost of sales	472	392
Research and development expenses	203	214
Sales and marketing expenses	431	400
Administrative expenses	145	146
Included in the cost of assets	34	36
Special items, cf. note 7	54	30
Total	**1,339**	**1,218**
Remuneration to Board of Management:		
Salaries	12	16
Cash bonuses (paid)	6	6
Pensions	2	2
Termination benefits	13	-
Calculated costs regarding share-based payments, cf. note 5	2	5
Total	**35**	**29**
Remuneration to Board of Directors:		
Remuneration to Board of Directors *	5	4
Employees		
Average number (FTE)	2,010	1,854
Number year end (FTE)	2,123	1,896

* The total remuneration to the Board of Directors includes remuneration for participation in the Audit Committee DKK 350,000 (2015: 350,000), the Remuneration Committee DKK 350,000 (2015: 350,000) and the Scientific Committee DKK 150,000 (2015: 150,000). The total remuneration includes 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	2016	2015
Cost of share-based payments	15	15
Total	**15**	**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	4	4
Administrative expenses	1	4
Financial expenses	3	-
Total	**15**	**15**

In 2016 the total cost of share-based payments included a financial expense of DKK 3 million due to the exercise and cash settlement of share option plans (2015: DKK 0 million).

In 2016 an income of DKK 0 million related to adjustment in the number of conditional shares expected to be vested is included in the cost of share based payments (2015: DKK 1 million)

Share option plans

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

Each share option entitles the holder to acquire one existing B share of DKK 10 nominal value in the company. The right to exercise the option is subject to the holder of the option not having resigned at the time of exercise. No other vesting conditions apply. The option can be exercised only during a period of four weeks after the publication of annual reports or interim financial statements. 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
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.

The Board of Directors decided for 3 open windows in 2016 that share options were to be settled by cash settlement and a total of 135,100 share options were exercised and total cash payments amounted to DKK 89 million. For one open window the Board of Directors decided that share options were settled by shares and a total of 27,025 were exercised.

	Board of Management units	Other key personnel units	Total units	Weighted average exercise price DKK
2015				
Outstanding options at 1 January	137,325	240,250	377,575	454
Additions	18,100	26,050	44,150	836
Exercised	(25,500)	(90,500)	(116,000)	403
Expired	-	(1,750)	(1,750)	585
Cancellations	-	(3,525)	(3,525)	552
Outstanding at 31 December	**129,925**	**170,525**	**300,450**	**470**

At 31 December 2015 the total number of vested share options amounts to 127,675 units.

Outstanding options have the following characteristics:

	Options units	Weighted average exercise price DKK	Vested as per	Exercise period
2010 Plan	1,000	405	1 Nov 2013	1 Nov 2013-1 Nov 2017
2011 Plan	13,100	370	1 Nov 2014	1 Nov 2014-1 Nov 2018
2012 Plan	13,400	457	1 May 2015	1 May 2015-1 May 2019
2013 Plan	16,025	475	1 Mar 2016	1 Mar 2016-1 Mar 2020
2014 Plan	39,250	758	1 Mar 2017	1 Mar 2017-1 Mar 2021
2015 Plan	36,675	836	1 Mar 2018	1 Mar 2018-1 Mar 2022
2016 Plan	27,120	1,087	1 Mar 2019	1 Mar 2019-1 Mar 2023
Outstanding at 31 December	**146,570**			

Notes to the consolidated financial statements

5 Share-based payments – continued

	2016	2015
Average remaining life of outstanding share options at year end (years)	4.3	4.1
Exercise prices for outstanding share options at year end (DKK)	361-1,127	352-867

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:

	2016 Plan	2015 Plan
Average share price (DKK)	972	747
Expected exercise price (DKK)*	1,073	825
Expected volatility rate	30% p.a.	28% p.a.
Expected option life	5 years	5 years
Expected dividend per share	5	5
Risk-free interest rate	-0.06% p.a.	+0.16% p.a.
Calculated fair value of granted share options (DKK)	208	145

* The exercise price is equivalent to the average market price of the company's 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).

Conditional shares

The ALK Group has established conditional share plans for the Board of Management and a number of key employees as part of a retention programme. Conditional shares will be available three years after the date of grant, provided that ALK achieves the targets for vesting.

	Board of Management units	Other key personnel units	Total units
2016			
Outstanding conditional shares at 1 January	11,870	18,305	**30,175**
Additions	1,864	3,875	**5,739**
Exercised	(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**
2015			
Outstanding conditional shares at 1 January	13,400	22,625	36,025
Additions	3,520	5,090	8,610
Exercised	(2,525)	(4,400)	(6,925)
Cancellations	(2,525)	(5,010)	(7,535)
Outstanding conditional shares at 31 December	**11,870**	**18,305**	**30,175**

The conditional shares have been granted at the average market price of the company's share for the five trading days immediately preceding the date of grant. The conditional shares have been granted at DKK 972 per share (2015: DKK 747). Conditional shares are considered sufficiently covered by treasury shares.

Notes to the consolidated financial statements

5 Share-based payments – continued

Outstanding conditional shares have the following characteristics:

	Conditional shares units	Vested as per
2014 Plan	7,280	1 Sep 2017
2015 Plan	7,330	1 Mar 2018
2016 Plan	5,739	1 Mar 2019
Outstanding at 31 December	**20,349**	

Restricted Stock Units
In 2015, the Board of Directors decided to grant Restricted Stock Units to all employees not included in the conditional shares. 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 RSUs were granted in 2015. As of 31 December 2016, outstanding RSUs were 15,040 and are considered sufficiently covered by treasury shares. The cost of the programme is calculated based on a share price of DKK 746 and amounts in total to DKK 11 million, which are expensed over the vesting period.

6 Depreciation, amortisation and impairment

Amounts in DKKm	2016	2015
Depreciation and amortisation are allocated as follows:		
Cost of sales	105	97
Research and development expenses	8	9
Sales and marketing expenses	23	24
Administrative expenses	27	29
Total	**163**	**159**

7 Special items

Amounts in DKKm	2016	2015
Severance and other restructuring expenses	63	38
Net gain on sales of companies and operations	0	(37)
Total	**63**	**1**
Severance and other restructuring expenses		
Severance pay etc.	54	30
Other restructuring expenses	9	8
Total	**63**	**38**
If severance and other restructuring expenses had been recognised in operating profit before special items, they would have been included in the following items:		
Cost of sales	14	13
Research and development expenses	-	-
Sales and marketing expenses	17	16
Administrative expenses	32	9
Total	**63**	**38**

Severance and other restructuring expenses represent one-off costs from 2012 to 2016 associated with the initiatives to streamline the business structure under the *Simplify* programme.

In addition to severance pay etc. related to the *Simplify* programme the special items cost for 2016 includes severance pay to former CEO, acquisition costs (see note 11) and strategy consulting costs.

Net gain on sales of companies and operations
The ALK Group had no divestments in 2016.

In December 2015, the ALK Group sold its European veterinary business. The divestment was part of the Focus 2018 *Simplify* programme and was made with effect as of 30 December 2015. The activities were previously an integrated part of the ALK Group's subsidiaries in The Netherlands.

The sales price was DKK 54 million, net book value of sold assets DKK 10 million and transaction cost DKK 7 million equaling a net gain on sales of companies and operations of DKK 37 million.

Notes to the consolidated financial statements

8 Financial income and expenses

Amounts in DKKm	2016	2015
Interest income	4	-
Interest income on marketable securities	9	3
Financial income from financial assets not measured at fair value in the income statement	13	3
Currency gains, net	9	119
Total financial income	**22**	**122**
Interest expenses	14	14
Financial expenses relating to financial liabilities not measured at fair value in the income statement	14	14
Total financial expenses	**14**	**14**

9 Tax on profit for the year

Amounts in DKKm	2016	2015
Current income tax	258	190
Adjustment of deferred tax	(53)	(120)
Prior year adjustments	12	(14)
Total	**217**	**56**
Profit before tax	487	400
Income tax, tax rate of 22% (2015: 23.5%)	107	94
Effect of deviation of foreign subsidiaries' tax rate relative to Danish tax rate	94	45
Non-taxable income	(1)	(8)
Non-deductible expenses	11	4
Other taxes and adjustments	(6)	9
Prior year adjustments	12	(14)
Effect of transfer of adrenaline activities*	-	(74)
Tax on profit for the year	**217**	**56**

* In 2015, ALK decided to dissolve the adrenaline business unit in Switzerland and transfer all adrenaline activities into other areas and locations. As a consequence ALK recorded a one-off positive tax adjustment of DKK 74 million.

9 Tax on profit for the year – continued

Tax related to equity and other comprehensive income comprises DKK 6 million (2015:DKK 9 million).

10 Adjustments for non-cash items

Amounts in DKKm	2016	2015
Tax on profit	217	56
Financial income and expenses	(11)	(108)
Share-based payments	15	15
Reversal of accounting gain on sale of non-current assets	(7)	(37)
Depreciation, amortisation and impairment	163	159
Other adjustments	31	2
Total	**408**	**87**

11 Acquisition of companies and operations

The ALK Group had no acquisitions in 2016, however it acquired the operating assets in Allergy Laboratory of Oklahoma Inc. and Crystal Labs LLC as of 3 January 2017. See note 28.

In June 2015, the ALK Group took over the allergy immunotherapy activities of its former distributor in Turkey, Albio Allerji Ürünleri Ith. Ve Tic. Ltd. Sti. (Albio) with a view to facilitating growth in the Turkish market. The acquisition was made through the ALK Group's Turkish subsidiary.

The purchase price of DKK 12 million was settled in cash and goodwill related to the acquisition amounted to DKK 5 million.

Notes to the consolidated financial statements

12 Intangible assets

Amounts in DKKm	Goodwill	Software	Patents, trademarks and rights	Other	Total
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**
2015					
Cost beginning of year	435	273	225	70	1,003
Currency adjustments	4	2	6	7	19
Additions	-	38	1	7	46
Acquisition of companies and operations	5	-	7	-	12
Disposals	-	(3)	(6)	-	(9)
Transfer to/from other groups	-	4	-	63	67
Cost year end	**444**	**314**	**233**	**147**	**1,138**
Amortisation and impairment beginning of year	20	211	90	19	340
Currency adjustment	1	-	2	1	4
Amortisation for the year	-	13	22	6	41
Amortisation on disposals	-	(1)	(5)	-	(6)
Amortisation and impairment year end	**21**	**223**	**109**	**26**	**379**
Carrying amount year end	**423**	**91**	**124**	**121**	**759**

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 2016 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 units, future free net cash flow is estimated based on Board of Directors-approved financial forecast (10 year forecast) in line with the ALK Group's strategy and projections for subsequent years.

The budget and the strategy plan 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 base business and partnerships as well as geographical expansions.

For financial years after the strategy period, 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%, (2015: pre-tax 11% and after tax 9%).

Other intangible assets

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

The additions for the year include capitalised costs for software development in progress DKK 32 million (2015: DKK 32 million). The carrying amount of these projects at 31 December 2016 is DKK 65 million (2015: DKK 53 million).

Notes to the consolidated financial statements

13 Property, plant and equipment

Amounts in DKKm	Land and buildings*	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
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

Amounts in DKKm	Land and buildings*	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	Total
2015					
Cost beginning of year	1,013	634	251	481	2,379
Currency adjustments	35	20	5	20	80
Additions	5	34	10	104	153
Sale of companies and operations	(23)	(9)	(3)	-	(35)
Disposals	(5)	(9)	(12)	-	(26)
Transfer to/from other groups	104	106	6	(283)	(67)
Cost year end	**1,129**	**776**	**257**	**322**	**2,484**
Depreciation and impairment beginning of year	332	306	192	-	830
Currency adjustments	6	7	4	-	17
Depreciation for the year	40	60	17	-	117
Sale of companies and operations	(16)	(8)	(3)		(27)
Depreciation of disposals	(4)	(8)	(12)	-	(24)
Depreciation and impairment year end	**358**	**357**	**198**	**-**	**913**
Carrying amount year end	**771**	**419**	**59**	**322**	**1,571**
of which financing costs					-
of which assets held under finance leases					113
Value of land and buildings subject to mortgages					270

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

Notes to the consolidated financial statements

14 Deferred tax

Amounts in DKKm	Intangible assets	Tangible assets	Current assets	Liabilities	Tax losses carried forward	Total
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**
2015						
Carrying amount beginning of year	(13)	(23)	63	71	42	140
Adjustment to prior years' deferred tax	-	4	-	-	-	4
Currency adjustments	-	-	-	-	5	5
Recognised in the income statement, net	98	(14)	4	6	26	120
Recognised in other comprehensive income, net	-	-	(3)	-	-	(3)
Recognised in equity, net	-	-	-	12	-	12
Carrying amount year end	**85**	**(33)**	**64**	**89**	**73**	**278**

Deferred tax at 31 December 2016 consists of deferred tax assets of DKK 449 million (2015: DKK 378 million) and deferred tax liabilities of DKK 124 million (2015: DKK 100 million).

Deferred tax is recognised as tax assets in the balance sheet, since it is assessed to be probable that sufficient future taxable income will be generated for the deferred tax asset to be utilised.

ALK-Abelló A/S is included in national joint taxation with Lundbeckfonden and its Danish subsidiaries.

Notes to the consolidated financial statements

15 Inventories

Amounts in DKKm	2016	2015
Raw materials and consumables	179	178
Work in progress	249	195
Manufactured goods and goods for resale	248	147
Total	**676**	**520**
Amount of write-down of inventories during the year	18	14
Amount of reversal of write-down of inventories during the year	2	1

The total consumption of materials included in cost of sales amounted to DKK 273 million (2015: DKK 236 million).

16 Trade receivables

Amounts in DKKm	2016	2015
Trade receivables (gross)	307	282
Allowances for doubtful trade receivables:		
Balance beginning of year	9	11
Change in allowances during the year	4	1
Realised losses during the year	(1)	(3)
Provision for doubtful trade receivables year end	**12**	**9**
Trade receivables (net)	**295**	**273**
Allowances for doubtful trade receivables are based on an individual assesment of receivables.		
Trade receivables (net) can be specified as follows:		
Not due	195	218
Age of past due trade receivables :		
Between 1 and 179 days	90	52
Between 180 and 360 days	6	3
More than 360 days	4	-
Trade receivables (net)	**295**	**273**

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

Notes to the consolidated financial statements

17 Share capital and earnings per share

Amounts in DKKm	2016	2015
Share capital		
The share capital consists of:		
A shares 920,760 shares of DKK 10 each 9	9	
B shares 9,207,600 shares of DKK 10 each	92	92
Total nominal value	**101**	**101**
Each A share carries 10 votes, whereas each B share carries 1 vote.		
Treasury shares*		
Treasury shares beginning of year (B-shares), units	361,051	468,349
Sale of treasury shares, units	64,207	107,298
Treasury shares year end (B-shares), units	**296,844**	**361,051**
Proportion of share capital year end	2.9%	3.6%
Nominal value year end	3,0	3,6
Market value year end	273	318
Earnings per share		
The calculation of earnings per share is based on the following:		
Net profit	270	344
Number in units:		
Average number of issued shares	10,128,360	10,128,360
Average number of treasury shares	(312,003)	(423,927)
Average number of shares used for calculation of earnings per share	**9,816,357**	**9,704,433**
Average dilutive effect of outstanding share options	97,078	139,490
Average number of shares used for calculation of diluted earnings per share	**9,913,435**	**9,843,923**
Earnings per share (EPS)	**27.51**	**35.45**
Earnings per share (DEPS), diluted	**27.24**	**34.95**

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

18 Pensions and similar liabilities

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

In defined contribution plans, the 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, The Netherlands and Switzerland.

Amounts in DKKm	2016	2015
Costs related to defined contribution plans	84	72
Costs related to defined benefit plans	12	11
Total	**96**	**83**
Present value of funded pension obligations	75	71
Fair value of plan assets	(66)	(63)
Funded pension obligations, net	**9**	**8**
Present value of unfunded pension obligations	189	165
Pension obligations	**198**	**173**
Anniversary liabilities	10	9
Pension related to bonus	24	17
Indemnity fund	1	2
Similar liabilities	1	1
Pension obligations and similar obligations, year end	**234**	**202**

Notes to the consolidated financial statements

18 Pensions and similar liabilities – continued

Amounts in DKKm	2016	2015
The principal assumptions used for the purposes of the actuarial valuations were as follows.		
Discount rate range 0.5% – 1.75% (weighted average rate)	1.7%	2.2%
Expected future rate of salary increase range 1% – 3% (weighted average rate)	2.9%	2.9%
Assumed life expectations on retirement age for current pensioners (years)*:		
Males	20.3	19.5
Females	24.0	21.6
Assumed life expectations on retirement age for current employees (future pensioners) (years)*		
Males	22.0	21.8
Females	26.8	23.7
Sensitivity analysis:**		
Sensitivity of the gross pension obligation to changes in the key assumptions (weighted average rates used)		
Sensitivity related to discount rate, effect in range of 0.25 % - 1% increase	(40)	(35)
Sensitivity related to discount rate, effect in range of 0.25% - 1% decrease	52	46
Sensitivity related to salary increase, effect in range of 0.25% - 0.5% increase	5	5
Sensitivity related to salary increase, effect in range of 0.25% - 0.5% decrease	(5)	(5)
Sensitivity related to life expectancy, effect if +1 year*	6	6
Sensitivity related to life expectancy, effect if -1 year*	(6)	(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.

Amounts in DKKm	2016	2015
Movements in the present value of the defined benefit obligation in the current year were as follows		
Opening defined benefit obligation	71	58
Sale of companies and operations	(7)	(2)
Current service costs	3	5
Interest costs	1	1
Actuarial gains / lossess from changes in financial assumptions	9	3
Actuarial gains / lossess arising from experience adjustments	(1)	1
Contribution from plan participants	1	1
Currency translation adjustment	(2)	4
Closing defined benefit obligation	**75**	**71**

Amounts in DKKm	2016	2015
Movements in the fair value of plan assets in the current year were as follows		
Opening fair value of plan assets	63	52
Sale of companies and operations	(7)	-
Administration cost	-	(1)
Interest income	1	2
Return on plan assets	7	4
Contribution from plan participants	2	4
Benefits paid	-	(1)
Currency translation adjustment	-	3
Closing fair value of plan assets	**66**	**63**
Movements in present value of unfunded pension obligations in the current year were as follows		
Opening present value of unfunded pension obligations	165	154
Current service costs	5	5
Interest costs	4	4
Actuarial gains / lossess from changes in financial assumptions	19	7
Actuarial gains / lossess arising from experience adjustments	(2)	(3)
Benefits paid	(1)	(2)
Currency translation adjustment	(1)	-
Closing present value of unfunded pension obligations	**189**	**165**
Amount recognised as staff expenses in the income statement		
Current service costs	8	10
Gains/losses on settlements	-	(2)
Net interest expense	4	3
Total	**12**	**11**
Amount recognised in comprehensive income in respect of defined benefit plans		
Actuarial (gains)/losses	17	4
Total	**17**	**4**

The expected contribution in 2017 for the defined benefit plans is DKK 13 million (2016: DKK 12 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 2016.

Notes to the consolidated financial statements

19 Mortgage debt, bank loans and financial loans

Amounts in DKKm	Carrying amount 2016	Carrying amount 2015	Fair value 2016	Fair value 2015
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	69	87	70	87
After 5 years	241	240	245	241
Total	**327**	**344**	**332**	**345**
Bank loans and financial loans				
Bank loans and financial loans are due as follows:				
Within 1 year	-	300	-	300
From 1-5 years	2	1	2	1
After 5 years	446	-	446	-
Total	**448**	**301**	**448**	**301**
Mortgage debt, bank loans and financial loans are recognized accordingly:				
Non-current liabilities	758	328		
Current liabilities	17	317		

Fair value for mortage 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.

20 Other provisions

Amounts in DKKm	2016	2015
Other provisions beginning of year	28	36
Provisions made during the year	32	28
Used during the year	22	33
Reversals during the year	1	3
Other provisions, year end	**37**	**28**
Other provisions are recognised as follows:		
Non-current liabilities	1	6
Current liabilities	36	22
Other provisions, year end	**37**	**28**

21 Changes in working capital

Amounts in DKKm	2016	2015
Change in inventories	(152)	(93)
Change in receivables	(24)	(39)
Change in short-term payables	89	46
Cash flow from changes in working capital	**(87)**	**(86)**

22 Contingent liabilities and commitments

Contingent liabilities

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

Liabilities relating to research and development projects are estimated to DKK 24 million as at 31 December 2016 (31 December 2015: DKK 12 million).

Joint taxation scheme

ALK-Abelló A/S is part of a Danish joint taxation scheme with Lundbeckfonden. As from the 2013 financial year, the company has partly a joint and several liability and partly a secondary liability with respect to income taxes etc. for the jointly-taxed companies, and as from 1 July 2012 it also has partly a joint and several liability and partly a secondary liability with respect to any obligations to withhold tax on interest, royalties and dividends for these companies. However, in both cases the secondary liability is capped at an amount equal to the share of the capital of the company directly or indirectly owned by the ultimate parent company. The total commitment for the joint taxation companies is included in the annual report of Lundbeckfonden.

Commitments

Land and buildings provided as security vis-à-vis for mortage debt amount to 240 DKK million (2015: 270 DKK million) out of mortage debt of 327 DKK million (2015: 344 DKK million).

Amounts in DKKm	2016	2015
Bank guarantees	**14**	**10**

Notes to the consolidated financial statements

23 Operating lease liabilities

Amounts in DKKm	2016	2015
Lease payments recognised in the income statement	43	49
Total minimum future lease payments:		
Within 1 year	52	59
From 1-5 years	160	87
After 5 years	43	10
Total	**255**	**156**

24 Finance lease liabilities

Amounts in DKKm	2016	2015
Finance lease liabilities are due as follows:		
Within 1 year	1	2
From 1-5 years	2	1
After 5 years	-	-
Total	**3**	**3**
Amortisation premium for future expensing	(1)	-
Present value of finance lease liabilities	**2**	**3**

Finance lease concerns lease of other equipment.

25 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 28-30. 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, liquidity 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 contratcs or similar derivatives have been used in 2016.

Sensitivities in 2016 in the event of a 10% increase in exchange rates

Amounts in DKKm	Revenue	EBITDA	Equity
31 December 2016			
USD	approx. +60	approx. + 5	approx. +35
GBP	approx. + 5	approx. + 3	approx. 0
31 December 2015			
USD	approx. +50	approx. + 5	approx. +25
GBP	approx. + 5	approx. 0	approx. 0

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

Notes to the consolidated financial statements

25 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 2016					
DKK	471	70	(611)	-	(74)
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)**	**-**	**(666)**
31 December 2015					
DKK	344	45	(621)	-	(232)
USD	41	69	(55)	-	55
EUR	125	208	(778)	-	(445)
GBP	50	13	(15)	-	48
SEK	1	16	(14)	-	3
Other	47	39	(72)	-	14
Total	**608**	**390**	**(1,555)**	**-**	**(557)**

The ALK Group hedges exchange rate exposure regarding future sales and purchases 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 2016 or 31 December 2015.

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.

Liquidity exposure

			Revaluation / payment date		
Amounts in DKKm	Carrying amount	Total cash flow*	Within 1 year	From 1-5 years	After 5 years
31 December 2016					
Mortage 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**
31 December 2015					
Mortage debt, bank loans and financial loans	645	684	321	105	258
Trade payables	81	81	81	-	-
Other financial liabilities	499	499	499	-	-
Financial liabilities	**1,225**	**1,264**	**901**	**105**	**258**

* 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 dates are 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

25 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 2016					
Cash and marketable securities	840	Various		Floating	
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**	-	-	-	-
31 December 2015					
Cash and marketable securities	608	Various	-	Floating	-
Interest-bearing assets	**608**				
Mortage debt	344	DKK	2035	Floating	1.2
Leasing debt	3	EUR, USD	2016-2020	Floating	1.3-4.0
Other bank loans and financial loans	298	EUR	2016	Fixed	3.1
Interest-bearing liabilities	**645**	-	-	-	-

An increase in interest rate by 1 percentage point on mortgage debt, bank loans and financial loans will reduce profit and loss and equity by less than DKK 1 million. An increase in interest by 1 percentage point on cash and marketable securities would consequently decrease profit and loss and equity by approximately DKK 3 million.

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.

Amounts in DKKm	2016	2015
Categories of financial instruments		
Marketable securities	548	432
Financial assets measured at fair value	**548**	**432**
Receivables from affiliates	22	30
Securities and receivables	8	8
Trade receivables	295	273
Other receivables	66	65
Cash	292	176
Loans and receivables	**683**	**552**
Mortgage debt	327	344
Bank loans and financial loans	448	301
Trade payables	132	81
Other payables	455	426
Finacial liabilities	**1,362**	**1,152**

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 at the end of December 2016 or December 2015.

Notes to the consolidated financial statements

26 Fees to ALK Group's auditors

Amounts in DKKm	2016	2015
Fees to the auditors, Deloitte, appointed at the annual general meeting:		
Audit services	3	2
Tax advisory services	2	1
Other services	1	1
Total	**6**	**4**

27 Related parties

Related parties exercising control
Parties exercising control are ALK-Abelló A/S' principal shareholder, Lundbeckfonden.

Other related parties comprise ALK's Board of Management and Board of Directors, companies in which the principal 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 principal shareholder:

- ALK-Abelló A/S has paid dividends to Lundbeckfonden in 2016 constituting DKK 20 million (2015: DKK 20 million)
- ALK-Abelló A/S received DKK 22 million (2015: DKK 8 million) concerning outstanding company tax from Lundbeckfonden
- Receivables from affiliates in ALK-Abelló A/S relate to outstanding company tax of DKK 22 million (2015: DKK 30 million)

Transactions with key management personnel consist of remuneration, see note 4.

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

At 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 (excl. taxes). The two companies had previously been under the same private ownership and produce allergen extracts and other material used in allergy immunotherapy treatments. Allergy Laboratories, Inc. and Crystal Laboratory LLC have a combined staff of around 100.

The transaction is on a debt and cash free basis. The purchase price reflects a 2015 notice by the US Food and Drug Administration's Center for Biologics Evaluation and Research (CBER) that intends to revoke Allergy Laboratories' biological license. ALK is confident that it can resolve this issue. However, part of the purchase price will be held back pending full resolution of the matter.

A preliminary purchase price allocation has been prepared. Inventories amount to USD 5 million, operating tangible assets amount to USD 3 million and intangible (incl. goodwill) assets amount to USD 12 million. No liabilities were transferred.

No other events have occurred after the reporting period.

29 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 7 February 2017.

Notes to the consolidated financial statements

30 List of companies in the ALK Group

31 December 2016 (wholly owned unless otherwise stated). Nominal capital in 1,000.

Denmark

ALK-Abelló A/S — DKK 101,284
CVR no. 63 71 79 16
Hørsholm

ALK-Abelló Nordic A/S — DKK 1,000
CVR no. 31 50 12 96
Hørsholm

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. — GBP 1
Reading

France

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

Germany

ALK-Abelló Arzneimittel GmbH — EUR 1,790
Hamburg

Austria

ALK-Abelló Allergie-Service GmbH — EUR 73
Linz

Switzerland

ALK-Abelló AG — CHF 100
Volketswil

ALK AG
Volketswil — CHF 1,000

Turkey

ALK ilaç ve Alerji Ürünleri Ticaret
Anonim Şirketi — TRY 50
Istanbul

Netherlands

ALK-Abelló B.V. — EUR 23
Nieuwegein

Artu Biologicals Europe B.V. — EUR 182
Lelystad
Wholly owned by ALK-Abelló B.V.

Spain

ALK-Abelló S.A. — EUR 4,671
Madrid

Italy

ALK-Abelló S.p.A. — EUR 3,680
Milan
Wholly owned by ALK-Abelló S.A.

Poland

ALK-Abelló sp. z o.o — PLN 325
Krakow

USA

ALK-Abelló, Inc. — USD 50
Austin

ALK-Abelló, Source Materials, Inc. — USD 5
Spring Mills

OKC Allergy Supplies Inc. — USD 1
Oklahoma City
Wholly owned by ALK-Abelló Inc.

OKC Crystal Laboratory Inc. — USD 1
Oklahoma City
Wholly owned by
ALK-Abelló, Source Materials, Inc.

Canada

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

China

ALK-Abelló A/S (branch)
Hong Kong

ALK Medical Consulting — CNY 500
Services Company Limited
Shanghai

Slovakia

ALK Slovakia s.r.o. — EUR 5
Bratislava

Czech Republic

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

Definitions

Invested capital	Intangible assets, tangible assets, inventories and current receivables reduced by liabilities except for mortgage debt, bank loans and financial loans
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
ROIC incl. goodwill – %	Operating profit x 100 / Average invested capital incl. goodwill
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 basic)	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 diluted
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

Key figures are calculated in accordance with “Recommendations and Financial Ratios 2015” issued by the Danish Finance Society.

Contents of the parent company financial statements

Parent company financial statements

Notes

Income statement

Amounts in DKKm	Note	2016	2015
Revenue		961	911
Cost of sales	2	572	404
Gross profit		**389**	**507**
Research and development expenses	2	370	373
Sales and marketing expenses	2	255	222
Administrative expenses	2,13	93	95
Operating profit/(loss) (EBIT)		**(329)**	**(183)**
Income from investments in subsidiaries	8	23	432
Financial income	3	41	140
Financial expenses	3	12	14
Profit/(loss) before tax (EBT)		**(277)**	**375**
Tax on profit	4	(67)	(37)
Net profit/(loss)		**(210)**	**412**
Proposed appropriation of net profit:			
Retained earnings		(261)	361
Dividends		51	51
		(210)	**412**

Balance sheet

Amounts in DKKm	Note	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	5	730	817
Intangible assets	5	187	160
		917	**977**
Tangible assets			
Land and buildings	6	333	351
Plant and machinery	6	227	244
Other fixtures and equipment	6	11	11
Property, plant and equipment in progress	6	198	170
		769	**776**
Other non-current assets			
Investment in subsidiaries	8	729	776
Receivables from affiliates		958	668
Securities and receivables		5	6
Deferred tax assets	7	46	-
		1,738	**1,450**
Total non-current assets		**3,424**	**3,203**
Current assets			
Inventories	9	287	179
Receivables			
Trade receivables		2	3
Receivables from affiliates		250	353
Other receivables		37	40
Prepayments		5	2
		294	**398**
Cash		87	4
Marketable securities		548	432
Total cash and marketable securities		**635**	**436**
Total current assets		**1,216**	**1,013**
Total assets		**4,640**	**4,216**

Amounts in DKKm	Note	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES			
Equity			
Share capital		101	101
Retained earnings		1,959	2,253
Capitalized development costs		8	-
Proposed dividend		51	51
Total equity		**2,119**	**2,405**
Deferred tax liabilities	7	-	14
Other provisions		-	3
Provisions		**-**	**17**
Liabilities			
Mortgage debt	10	310	327
Bank loans and financial loans	10	446	-
Non-current liabilities		**756**	**327**
Mortgage debt	10	17	17
Bank loans and financial loans	10	-	298
Trade payables		64	40
Payables to affiliates		1,513	948
Other payables		171	164
Current liabilities		**1,765**	**1,467**
Total liabilities		**2,521**	**1,794**
Total equity and liabilities		**4,640**	**4,216**

Equity

Amounts in DKKm	Share capital	Retained earnings	Reserve for capitalized development costs	Proposed dividend	Total equity
2016					
Equity at 1 January 2016	**101**	**2,253**	**-**	**51**	**2,405**
Appropriated from net profit	-	(261)	-	51	(210)
Share-based payments	-	15	-	-	15
Share options settled	-	(89)	-	-	(89)
Sale of treasury shares	-	47	-	-	47
Dividend paid	-	-	-	(51)	(51)
Dividend on treasury shares	-	2	-	-	2
Transfer to legal reserves	-	(8)	8	-	-
Other transactions	**-**	**(294)**	**8**	**-**	**(286)**
Equity at 31 December 2016	**101**	**1,959**	**8**	**51**	**2,119**

Please refer to note 17 in the consolidated financial statements for information on treasury shares.

Notes to the parent company financial statements

1 Accounting policies

General

The financial statements of the parent company ALK-Abelló A/S for the period 1 January – 31 December 2016 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 as described below.

Significant changes to the annual report
The new Danish Financial Statements Act effective from 1 January 2016 has been implemented in ALK-Abelló A/S. Significant changes in the annual report for 2016 relate to the statement of equity. The following are implemented in the annual report for 2016.

The Danish Financial Statements Act section 86 (a) 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, only.

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

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 over the fair value of the acquisition date amounts of the net assets acquired.

Goodwill
Goodwill is amortised on a straight-line basis over the useful life, which is determined to be 10 years based on Management's expectations to the related business activities. Goodwill is written down to its recoverable amount if this is lower than its carrying amount.

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.

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 Staff costs

Amounts in DKKm	2016	2015
Wages and salaries	498	458
Pensions	46	44
Other social security costs, etc.	22	19
Share-based payments	9	12
Total	**575**	**533**
Staff costs are allocated as follows:		
Cost of sales	246	192
Research and development expenses	184	193
Sales and marketing expenses	39	42
Administrative expenses	87	81
Included in the cost of assets	19	25
Total	**575**	**533**
Remuneration to Board of Management:		
See note 4 Staff cost in the consolidated financial statements		
Remuneration to Board of Directors:		
See note 4 Staff cost in the consolidated financial statements		
Employees		
Average number (FTE)	743	711
Number year end (FTE)	762	723

3 Financial income and expenses

Amounts in DKKm	2016	2015
Interest on receivables from affiliates	14	27
Other interest income	13	3
Currency gain, net	14	110
Total financial income	**41**	**140**
Other interest expenses	12	14
Total financial expenses	**12**	**14**

4 Tax on profit for the year

Amounts in DKKm	2016	2015
Current income tax	(22)	(20)
Adjustment of deferred tax	(59)	-
Prior year adjustments	14	(17)
Total	**(67)**	**(37)**
Profit before tax	(277)	375
Income tax, tax rate of 23.5%	(61)	88
Non-taxable income	(20)	(110)
Non-deductible expenses	-	2
Prior year adjustments	14	(17)
Tax on profit for the year	**(67)**	**(37)**

Notes to the parent company financial statements

5 Intangible assets

Amounts in DKKm	Goodwill	Patents, trademarks and rights	Development cost	Other	2016	2015
Cost beginning of year	867	251	90	4	1,212	243
Additions	-	39	-	8	47	977
Disposals	-	(5)	-	-	(5)	(8)
Cost year end	**867**	**285**	**90**	**12**	**1,254**	**1,212**
Amortisation and impairment beginning of year	50	160	25	-	235	177
Amortisation for the year	87	12	7	1	107	65
Amortisation on disposals	-	(5)	-	-	(5)	(7)
Amortisation and impairment year end	**137**	**167**	**32**	**1**	**337**	**235**
Carrying amount year end	**730**	**118**	**58**	**11**	**917**	**977**

Goodwill arises from the transfer of all adrenaline activities from the ALK Group's Swiss subsidiary to the Danish parent company.
The carrying amount of the Jext® related assets totals to DKK 818 million at 31 December 2016 (2015: DKK 920 million).

6 Property, plant and equipment

Amounts in DKKm	Land and buildings	Plant and machinery	Other fixtures and equipment	Property, plant and equipment in progress	2016	2015
Cost beginning of year	571	461	45	170	1,247	1,152
Additions	-	7	1	44	52	110
Disposals	-	(8)	(10)	-	(18)	(15)
Transfer to/from other groups	-	13	3	(16)	-	-
Cost year end	**571**	**473**	**39**	**198**	**1,281**	**1,247**
Depreciation and impairment beginning of year	220	217	34	-	471	426
Depreciation for the year	18	36	4	-	58	56
Depreciation of disposals	-	(7)	(10)	-	(17)	(11)
Depreciation and impairment year end	**238**	**246**	**28**	**-**	**512**	**471**
Carrying amount year end	**333**	**227**	**11**	**198**	**769**	**776**
of which assets held under finance leases					91	95
Value of land and buildings subject to mortgages					240	270

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

Notes to the parent company financial statements

7 Deferred tax

Amounts in DKKm	Intangible assets	Tangible assets	Current assets	Liabilities	Tax losses carried forward	Total
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**
2015						
Carrying amount beginning of year	(10)	(21)	3	8	2	(18)
Adjustment to prior years	-	4	-	-	-	4
Recognised in the income statement, net	(30)	(8)	(4)	(2)	44	-
Carrying amount year end	**(40)**	**(25)**	**(1)**	**6**	**46**	**(14)**

Deferred tax in ALK-Abelló A/S is recognised as tax assets in the balance sheet, since it is assessed to be probable that sufficient future taxable income will be generated for the deferred tax asset to be utilised.

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

8 Investments in subsidiaries

Amounts in DKKm	2016	2015
Cost beginning of year	905	905
Cost year end	**905**	**905**
Write-down beginning of the year	129	102
Write-down during the year	47	27
Write-down year end	**176**	**129**
Carrying amount year end	**729**	**776**

Income from investments in subsidiaries are dividends, which amounted to DKK 70 million (2015: Dividend DKK 459 million).

For an overview of all subsidiaries see page 72 in the consolidated financial statements.

9 Inventories

Amounts in DKKm	2016	2015
Raw materials and consumables	63	48
Work in progress	205	112
Manufactured goods and goods for resale	19	19
Total	**287**	**179**
Amount of write-down of inventories during the year	7	8
Amount of reversal of write-down of inventories during the year	1	-

Notes to the parent company financial statements

10 Mortgage debt, bank loans and financial loans

Amounts in DKKm	2016	2015
Debt to mortgage credit institutions secured by real property		
Mortgage debt is due as follows:		
Within 1 year	17	17
From 1-5 years	69	87
After 5 years	241	240
Total	**327**	**344**
Bank loans and financial loans		
Bank loans and financial loans are due as follows:		
Within 1 year	-	298
From 1-5 years	-	-
After 5 years	446	-
Total	**446**	**298**

11 Operating lease liabilities

Amounts in DKKm	2016	2015
Lease payments recognised in the income statement	12	17
Total minimum future lease payments:		
Within 1 year	13	16
From 1-5 years	37	15
After 5 years	-	-
Total	**50**	**31**

12 Contingent liabilities and commitments

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

13 Related parties

ALK-Abelló A/S is included in Lundbeckfonden's consolidated financial statements.

Remuneration etc. to Board of Directors and Board of Management
For information on remuneration paid to the ALK Group's Board of Directors and Board of Management, see notes 4 and 5 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. See also note 27 in the consolidated financial statements.

14 Fees to ALK-Abelló A/S' auditors

Amounts in DKKm	2016	2015
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**

15 Events after the reporting period

No events have occured after the reporting period.

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

Amounts in DKK/EURm	2016	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
INCOME STATEMENT					
Revenue	**3,005**	754	630	773	848
Cost of sales	**994**	263	218	267	246
Research and development expenses	**385**	103	85	97	100
Sales and marketing expenses	**893**	256	202	232	203
Administrative expenses	**198**	53	45	50	50
Operating profit (EBIT) before special items	**542**	80	80	127	255
Special items	**(63)**	(25)	(11)	(8)	(19)
Operating profit (EBIT)	**479**	55	69	119	236
Net financial items	**8**	7	2	12	(13)
Profit/(loss) before tax (EBT)	**487**	62	71	131	223
Net profit	**270**	36	39	72	123
Operating profit/(loss) before depreciation and amortisation (EBITDA) before special items	**705**	121	121	167	296
Operating profit/(loss) before depreciations (EBITDA)	**642**	96	110	159	277
Average number of employees (FTE)	**2,010**	1,877	1,996	1,959	1,934
REVENUE (GROWTH IN REVENUE IN LOCAL CURRENCY %)					
Europe	**2,434 (28)**	612 (11)	500 (20)	641 (56)	681 (31)
– SCIT/SLIT-drops	**1,881 (25)**	493 (12)	392 (19)	487 (55)	509 (21)
– SLIT-tablets	**406 (61)**	84 (7)	65 (51)	117 (100)	140 (94)
– Other products and services	**147 (4)**	35 (9)	43 (-2)	37 (-2)	32 (17)
North America	**512 (15)**	116 (9)	119 (6)	126 (11)	151 (37)
– SCIT/SLIT-drops	**281 (6)**	69 (0)	69 (3)	71 (5)	72 (16)
– SLIT-tablets	**63 (42)**	5 (2,200)	9 (-34)	10 (-8)	39 (116)
– Other products and services	**168 (26)**	42 (13)	41 (28)	45 (27)	40 (36)
International markets	**59 (-68)**	26 (61)	11 (-91)	6 (-74)	16 (-4)
– SCIT/SLIT-drops	**28 (-32)**	9 (28)	3 (-50)	3 (-84)	13 (38)
– SLIT-tablets	**25 (-82)**	14 (79)	8 (-94)	1 (-78)	2 (-65)
– Other products and services	**6 (152)**	3 (136)	-	2 (100)	1 (2)
Total revenue	**3,005 (19)**	754 (12)	630 (-4)	773 (41)	848 (31)
– SCIT/SLIT-drops	**2,190 (21)**	571 (10)	464 (15)	561 (40)	594 (21)
– SLIT-tablets	**494 (13)**	103 (20)	82 (-53)	128 (68)	181 (87)
– Other products and services	**321 (16)**	80 (13)	84 (11)	84 (15)	73 (27)

Amounts in DKK/EURm	2016	Q4 unaudited	Q3 unaudited	Q2 unaudited	Q1 unaudited
BALANCE SHEET					
Total assets	**4,799**	4,799	4,525	4,503	4,423
Invested capital	**2,353**	2,353	2,408	2,336	2,299
Equity	**2,875**	2,875	2,838	2,842	2,762
CASH FLOW AND INVESTMENTS					
Depreciation, amortisation and impairment	**163**	41	41	40	41
Cash flow from operating activities	**405**	100	35	110	160
Cash flow from investing activities	**(204)**	(97)	(55)	(47)	(5)
– of which investment in tangible and intangible assets	**(225)**	(99)	(55)	(47)	(24)
Free cash flow	**201**	3	(20)	63	155
INFORMATION ON SHARES					
Dividend	**49**	-	-	-	49
Share capital	**101**	101	101	101	101
Shares in thousands of DKK 10 each	**10,128**	10,128	10,128	10,128	10,128
Share price, end period – DKK	**879**	879	938	1,169	962
Net asset value per share – DKK	**284**	284	280	281	273
KEY FIGURES					
Gross margin – %	**67**	69	68	68	71
EBITDA margin – % before special items	**23**	16	26	29	35
EBITDA margin – %	**21**	13	24	27	33
Earnings per share (EPS) – DKK	**27.5**	3.5	4.0	7.0	13.0
Diluted earnings per share (DEPS) – DKK	**27.2**	4.2	3.0	8.0	12.0
Cash flow per share (CFPS) – DKK	**41.3**	10.3	3.0	12.0	16.0
Share price/Net asset value	**3.2**	3.2	3.3	4.2	3.5

* Management's review comprises pages 1-38 as well as Financial highlights and key ratios for the ALK Group on page 83.

Definitions: see page 73.

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