

Remuneration Report 2018

Remuneration report

Remuneration report

The purpose of ALK's remuneration guidelines are to:

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

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

Remuneration for the Board of Directors

Base fee 2018

The directors' base fee was unchanged in 2018 at DKK 275,000. At the annual general meeting in March 2019, the Board of Directors will propose that the remuneration be unchanged for 2019.

Remuneration structure

The members of the Board of Directors are not offered any share options, performance shares or other incentives, and only travel costs are reimbursed. Employee-elected members of the Board of Directors may take

Board of Directors

	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee
Steen Riisgaard, Chairman	Member	Chairman	Member	Chairman
Lene Skole*, Vice Chairman	Member		Member	Member
Katja Barnkob		Member		
Lars Holmqvist*				
Andreas Slyngborg Holst				
Jacob Kastrup				
Gonzalo De Miquel		Member	Chairman	
Jakob Riis*	Chairman			

Remuneration for the Board of Directors

DKKt	Annual fee	Audit Remuneration Committee	Scientific Committee	Nomination Committee	2018	2017	2016
Steen Riisgaard	825	100	150	-	1,075	975	975
Lene Skole*	550	100		-	650	650	650
Katja Barnkob	275				275	275	275
Lars Holmqvist*	275		100		375	375	375
Andreas Slyngborg Holst	275				275	275	275
Jacob Kastrup	275				275	275	275
Gonzalo De Miquel (joined March 2018)	275		100	150	525		
Anders Gersel Pedersen (resigned March 2018)	-				-	525	525
Jakob Riis*	275	150			425	425	425
Per Valstorp (resigned March 2018)	-				-	375	375
Total	3,025	350	350	150	3,875	4,150	4,150

Remuneration multiple 2018, Board of Directors and committees

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

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

Ownership interest in ALK

	Holding as at 31 December 2018	Changes during the year
Steen Riisgaard	1,000	-
Lene Skole*	1,150	-
Katja Barnkob	24	-
Lars Holmqvist*	0	-
Andreas Slyngborg Holst	0	-100
Jacob Kastrup	18	+10
Gonzalo de Miquel	0	-
Jakob Riis*	550	-
Total	2,742	-90

part in the general incentive programmes for employees at ALK.

The Vice Chairman receives double the base fee and the Chairman gets three times the base fee. In addition, members of the Remuneration Committee, the Audit Committee and the Scientific Committee each receive a fee of DKK 100,000, with the Chairman of each committee receiving DKK 150,000.

Remuneration for Board of Management

The compensation for the CEO in 2018 totalled DKK 11.3 million, representing a decrease of 26% compared to 2017. The base salary stayed at DKK 6.25 million (55% of total compensation) and the STI cash bonus of DKK 4.0 million was 85% of maximum bonus. The bonus payout reflects a performance that exceeded the group financial targets as well as strong performance in the global sales of SLIT-tablets.

The compensation for the EVP for R&D totalled DKK 4.8 million in 2018. This represents a decrease of 18% compared to 2017. The base salary remained at DKK 2.8 million (58% of total compensation) and the STI cash bonus was DKK 1.0 million which constitutes 73% of maximum bonus. The bonus payout reflects a year with performance above expectations for the group financial goals as well as progress in completing the tablet portfolio.

The EVP for Operations received a total compensation of DKK 5.1 million in 2018 representing a decrease of 11% compared to 2017. The base salary increased by 13% to DKK 2.9 million (56% of total compensation in 2018) to reflect the additional responsibility for Product Supply from December 2017. The STI cash bonus was DKK 1.3 million which constitutes 90% of maximum bonus. The bonus payout reflects a performance exceeding expectations on the group

Remuneration structure and remuneration for Board of Management

Element	CEO		EVP, R&D			EVP, Operations			CFO	Objective	Remuneration level	Performance measure
	2018	2017	2018	2017	2016	2018	2017	2016	2018			
Fixed salary	6,250	6,250	2,798	2,798	2,798	2,881	2,551	2,506	2,300	Attract and retain qualified executives	On par with market compared to the level in similar listed Danish companies with global reach	n/a
Short-term incentive (cash bonus)	3,984	4,688	1,026	1,166	1,166	1,296	1,260	1,253	1,035	Ensure a clear link between value creation and payment	For the CEO, target is 70% and maximum is 75%. For the EVPs, target is 25% and maximum is 50% of the base salary	The financial targets act as qualifiers for bonus payout. The remaining targets concern the four strategic pillars. 70% of the bonus relates to the group performance and 30% to the individual performance
Sign-on bonus (cash)	-	1,500	-	-	-	-	-	-	686			
Long-term incentive (equity-based) valued at the time of vesting in the respective year	814	2,530	425	1,349	4,078	425	1,349	3,189	n/a	Reward long-term value creation and align with shareholders' interest	Target is 35-50% of the annual base salary at the date of grant. At vesting, the programme will be paid out at 0-200% depending on the fulfilment of the goals in the programme	The goals relate to revenue and success in the strategic priorities
Pension incl. social security	2	2	422	422	422	380	380	378	347	n/a	The EVPs have a company paid pension scheme of 15%	n/a
Other benefits	243	243	141	106	117	142	219	121	288			
Total (DKKt)	11,293	15,212	4,812	5,841	8,581	5,124	5,759	7,447	4,656			
Severance pay if terminated by ALK	30 months pay consisting of base salary during the termination period (six months) and severance pay (24 months)	18 months pay consisting of base salary during the termination period (six months) and severance pay (12 months)	18 months pay consisting of base salary during the termination period (six months) and severance pay (12 months)			18 months pay consisting of base salary during the termination period (six months) and severance pay (12 months)			13 months pay consisting of base salary during the termination period (six months) and severance pay (seven months). The severance pay will increase by one month per year of hire until reaching a total of 12 months in 2023			

financial targets as well as a strong performance in the global SLIT-tablet sales.

The compensation for the CFO totalled DKK 4.7 million in 2018 which was his first year in ALK. The base salary amounted to DKK 2.3 million (49% of total compensation) and the STI cash bonus was DKK 1.0 million which constitutes 90% of maximum bonus. The bonus payout reflects performance above expectations on the group financial goals and progress in optimisation programmes.

The remuneration under the share-based incentive programmes consists of the value of programmes on the day they vested in 2018. The LTIP from 2015 consisting of conditional shares and share options vested on 1 March 2018, and the CEO sign-on programme vested on 1 January 2018.

Remuneration structure

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

Short-term incentive plan (STIP)

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

The targets are set and evaluated annually by the Board of Directors, and the financial goals act as a bonus qualifier with a predefined threshold for the achievement of each financial target. In 2018, the weighting of the financial goals was 30% and the combined weighting of targets for the four strategic pillars was 70%. All goals were set collectively for the CEO and the EVPs.

Long-term incentive plan (LTIP)

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

The total value at the date of grant is split equally between share options and performance shares. Both plans are subject to the fulfilment of economic indicators over

a three-year period, with a threshold below which there will be no payout, and with the opportunity to perform above target. Where performance is above target, a multiplier is applied that can increase the payout by up to 100%.

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

Special incentive plan – equity-based one-time scheme

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

The special incentive plan is conditional upon economic indicators being attained

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

Share options may be exercised during the two years after they have vested. If they are not exercised within the two years, they will expire.

The performance shares will be allocated to each member of Board of Management after three years if the pre-defined criteria have been met.

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

Board of Management's ownership interests in ALK as at 31 December 2018

	Shares 31.12.2018	Net changes during the year*	Share options 31.12.2018	Net changes during the year*	Conditional shares 31.12.2018	Net changes during the year*	Performance shares 31.12.2018	Net changes during the year*
Carsten Hellmann	2,040	+1,140	52,590	+17,942	-	-1,140	4,592	+3,607
Henrik Jacobi	2,133	+595	20,436	+8,863	466	-595	2,330	+1,781
Søren Jelert	-	-	6,525	+6,525	-	-	1,311	+1,311
Søren Niegel	2,013	95	24,469	+990	466	-595	2,136	+1,606
Total	6,186	+1,830	104,020	+34,320	932	-2,330	10,369	+8,305

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