

## **Statutory Corporate Governance statement for the financial year 2014, cf. art. 107b of the Danish Financial Statement Act**

This statement forms part of the management's review in ALK-Abelló A/S' 2014 annual report covering the period January 1 – December 31 2014.

### **Governing bodies**

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

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

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

### **Composition of the Board of Directors**

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

At the annual general meeting in 2014, Steen Riisgaard was re-elected Chairman and Christian Dyvig was re-elected Vice Chairman. Thorleif Krarup, Anders Gersel Pedersen and Jakob Riis were all re-elected while Lene Skole was elected as a new member of the Board instead of Jes Østergaard.

None of the members elected by the shareholders have previously been employed with ALK, and none of them have an interest in ALK other than the interests they may have as shareholders. Three of the members elected by the shareholders are affiliated with ALK's principal shareholder, the Lundbeck Foundation, while the other three members are independent.

The Board of Directors represents international business experience from managerial positions in a variety of industries, particular regard is given to the members' insight into the management and globalisation of R&D driven companies. The Board of Directors is deemed to have the competences relevant to further ALK's development. The Board members are presented on page 22 of the 2014 annual report along with details on their specific competencies, managerial positions, shareholdings, etc.

### **The Board of Directors' activities**

The Board of Directors' work follows a calendar, ensuring the consideration of all relevant topics over the year. In 2014, the Board of Directors held seven meetings (seven in 2013); the meeting in September was a two-day seminar focusing on the new updated Focus 2018 strategy.

The Board of Directors has appointed four committees: The Audit Committee, the Remuneration Committee, the Nomination Committee and the Scientific Committee. The committees' members can be seen below. The charters of the committees are available on the corporate website. The Audit Committee and the Remuneration Committee both held three meetings in 2014 (three in 2013), while the Scientific Committee met once (twice in 2013).

At the end of the year, the Board of Directors evaluates its work and cooperation with the Board of Management. The evaluation is based on a questionnaire and on individual interviews with the Board members as well as the members of the Board of Management. The 2014 self-evaluation was conducted with the aid of an external consultant who presented the results at the Board of Directors' meeting in November. In general, the Board of Directors and the Board of Management considered the cooperation excellent. The evaluation identified four areas that the Board of Directors would like to focus more on.

In addition, the Audit Committee and the Remuneration Committee evaluate their work and their cooperation with the Board of Management. The outcome of the evaluations was very positive.

## Board of Directors

	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee
Steen Riisgaard, chairman	Member	Chairman		Chairman
Christian Dyvig, vice chairman		Member		Member
Jacob Kastrup				
Thorleif Krarup	Chairman			
Anders Gersel Pedersen		Member	Chairman	
Jakob Riis				
Dorthe Seitzberg				
Lene Skole				
Katja Barnkop Thaulund				

Following members are affiliated Lundbeck Foundation that owns 40,3 % of ALK: Christian Dyvig, Thorleif Krarup and Lene Skole. Independent directors are: Steen Riisgaard, Anders Gersel Pedersen and Jakob Riis.

For the period until 11 March 2019, the Board of Directors is authorised to let ALK acquire up to 10% of the Company's own B shares at the market price for B shares on the date of acquisition, subject to a deviation of up to 10%. Furthermore, for the period up to and including the day of the annual general meeting in 2019, the Board of Directors is authorised to increase the company's share capital by issue of new shares with a nominal value of up to DKK 10,128,360, equivalent to A shares with a nominal value of up to DKK 920,760 and B shares with a nominal value of up to DKK 9,207,600.

The Board of Directors also has a standing authorisation to decide to pay extraordinary dividend, and, finally, the Board of Directors may issue warrants until 2016, granting the Board of Management and key employees the right to subscribe for up to 280,000 B shares.

## Remuneration

The Board of Directors is required to lay down general guidelines for ALK's incentive pay to members of the Board of Directors and the Board of Management before any specific agreements on incentive pay can be made, cf. section 139(1) of the Danish Companies Act. The guidelines shall be considered and approved by the shareholders at the annual general meeting, and information on incentive pay shall be incorporated in the Articles of Association, cf. section 139(2) of the Danish Companies Act. The current guidelines can be seen here <http://ir.alk-abello.com/incentive.cfm>.

## Board of Directors' fees

The members of the Board of Directors are not offered any share options, conditional shares or other incentives but receive a fixed fee which is approved in advance by the shareholders at the annual general meeting. The directors' fees were unchanged in 2014. The base fee is DKK 275,000, the Vice Chairman receiving double the amount and the Chairman getting three times the base fee. In addition, the members of the Remuneration Committee, the Audit Committee and the Scientific Committee receive a fee of DKK 100,000 – the Chairman of each Committee receiving DKK 150,000. At the

annual general meeting in March 2015, ALK will propose that the remuneration for 2015 be unchanged.

	Holding as at 31 December 2014	Changes during the year
Steen Riisgaard	0	-
Christian Dyvig	0	-
Jacob Kastrup	8	-
Thorleif Krarup	700	-
Anders Gersel Pedersen	0	-
Jakob Riis	550	-
Dorthe Seitzberg	102	-
Lene Skole	**250	-
Katja Barnkob Thalund	24	-
<b>Total</b>	<b>1,634</b>	<b>-</b>

\*Shares acquired prior to election to the Board of Directors

### Board of Management remuneration

The remuneration of the Board of Management is a combination of fixed and performance-based pay to ensure attraction and retention of key persons. At the same time the Board of Management is given an incentive to create shareholder value through partly incentive-based pay.

In addition to the fixed wages, pension and usual non-pay benefits, the Board of Management is eligible for a cash bonus restricted to nine and six months, respectively, of the base salary of the President and CEO and the other members of the Board of Management.

The Board of Management are granted share options and conditional shares. The value of share options and conditional shares may not exceed 30% of Board of Management's combined base salaries plus pension. The grants to the Board of Management appear from the table below and are detailed in Note 5 of the 2014 annual report. The total remuneration of the Board of Management appears in Note 4 of the 2014 annual report.

### The Board of Management's ownership interests in ALK as at 31 December 2014

	Shares	Changes during the year	Options	Net changes during the year*	Conditional shares	Changes during the year
Jens Bager	11,713	-	56,350	-28,300	4,875	+1,125
Henrik Jacobi	8	-	32,525	-19,450	2,700	+600
Søren Niegel	500	-	15,625	+3,625	2,475	+600
Flemming Pedersen	1,116	-	32,825	-9,875	2,750	+600
Helle Skov	-	-	-	-	600	+600
<b>Total</b>	<b>13,337</b>	<b>-</b>	<b>137,325</b>	<b>-54,000</b>	<b>13,400</b>	<b>+3,525</b>

\*The figure indicates the net movement in the course of the year, i.e., options granted less exercised and expired options

### Risks related to financial reporting

ALK has designed a number of internal control and risk management systems to ensure that its financial statements provide a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and with a number of other disclosure requirements to the annual reports of listed companies. The systems also support appropriate accounting policies and accounting estimates.

ALK's risk management and internal controls in connection with the financial reporting process, including IT and tax, are designed with a view to managing rather than eliminating the risk of errors and omissions in the Group's financial reporting.

### **Control environment**

The primary responsibility for the Group's risk management and internal controls in relation to the financial reporting process rests with the Board of Directors and the Board of Management. The two boards are responsible for establishing and approving general policies, procedures and controls in key areas connected with the financial reporting process. The Board of Directors has established an Audit Committee with an advisory role relatively to the Board of Directors on internal controls in the financial reporting procedures, special financial and accounting issues, evaluation of financial reporting and other financial information and risk management.

The Board of Directors will, on an ongoing basis, assess if there is a need for establishing an internal audit. Based on the size and accounting and auditing complexity of ALK, the work will be undertaken by the Corporate Finance function and the individual affiliates.

The Board of Management is responsible for the day-to-day maintenance of an efficient control environment and risk management systems in connection with the financial reporting process. Managers at various levels are responsible within their respective areas.

The policies, procedures and manuals that have been adopted are available on the Group's intranet, and the importance of compliance with these precepts is regularly emphasised. Guidelines for persons authorised to sign for the company are provided through a formalised and documented distribution of responsibilities. The risk of fraud is mitigated through organisational segregation of incompatible functions and the use of preventive and detective internal controls. The controls are both IT-based and manual.

ALK's control environment consists of its organisational structure and internal guidelines, which are based on legislation and applicable recommendations.

ALK has established a whistle-blower scheme, giving employees with knowledge of potentially destructive or illegal acts related to ALK's activities the opportunity to report their observations. The scheme minimises the risk of illegalities and irregularities within the areas of financial crime, environmental pollution or inappropriate conduct, as well as other circumstances that may be to the detriment of ALK.

### **Risk assessment**

There is a relatively greater risk of error in items in the financial statements that are based on estimates or that are generated through complex processes. ALK performs continual risk assessments to identify such items and to assess the scope of the related risks.

Note 2 to the consolidated financial statements of the annual report for 2014 ('Significant accounting estimates and judgements') contains a description of the estimates and assessments that are considered material to financial reporting.

### **Control activities**

The purpose of the control activities is to prevent, detect and correct possible errors or irregularities.

These activities are integrated in the company's accounting and reporting procedures and include procedures such as certification, authorisation, approval, reconciliation, results analysis, segregation of incompatible functions as well as controls relating to IT applications and general IT controls. The Corporate Finance function also conducts control activities aimed at ALK's subsidiaries and selected key processes.

### **Information and communication**

The company maintains information and communications systems to ensure that its financial reporting is correct and complete. Guidelines for reporting and end-of-month procedures are updated regularly and reviewed at least once a year. These guidelines are available to the relevant staff on ALK's intranet. Amendments to accounting procedures are announced and explained in instructions from the Corporate Finance function.

### **Monitoring**

ALK uses a comprehensive, standardised financial management system, which contributes to the monitoring of the Group's results. The system facilitates early detection and correction of possible errors and irregularities in the Group's financial reporting.

All companies report detailed monthly accounting data that are analysed and monitored at Group and regional level. ALK applies a uniform accounting practice in accordance with IFRS, which is described in the corporate accounting manual. The accounting manual contains accounting and assessment principles and reporting instructions which must be strictly observed by all companies of the Group. The manual is updated and reviewed continually, and compliance with the manual is monitored at Group level. The Board of Management informs the Audit Committee on the degree of compliance with the principles and instructions in the manual.

### **Corporate Governance**

Since 2005, the Danish Committee on Corporate Governance has drawn up a set of recommendations on corporate governance that has been adopted by NASDAQ Copenhagen A/S. The recommendations are generally in compliance with the practice of the OECD. ALK's Board of Directors has continuously taken the Committee's guidelines into consideration and the Board's 'comply or explain' review of all 47 guidelines is available below / at <http://ir.alk-abello.com/guidelines.cfm>.

ALK is in full compliance with all the guidelines but one where the company complies partially: ALK does not disclose in detail the remuneration of each member of the Board of Management as the disclosure of each member's individual salary and bonus would constitute an invasion of their personal privacy.