

Remuneration Report 2019

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 are rewarded to reflect company performance and individual results as described in the guidelines for incentive pay

The current 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 2019

The directors' base fee was unchanged in 2019 at DKK 275,000.

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 are eligible for 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, in 2019, members of the Audit Committee and the Remuneration Committee each received a fee of DKK 100,000, while the Chairman of the Audit Committee, the Remuneration Committee and the Scientific Committee each received DKK 150,000.

Board of Directors

	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee
Steen Riisgaard, Chairman	Member	Chairman		Chairman
Lene Skole*, Vice Chairman	Member			Member
Katja Barnkob				
Nanna Rassov Carlson				
Lars Holmqvist*		Member		
Gonzalo De Miquel		Member	Chairman	
Jakob Riis*	Chairman			
Johan Smedsrud				
Vincent Warnery				

Actual remuneration for the Board of Directors

DKK†	Base fee	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee	2019	2018	2017
Steen Riisgaard	825	100	150		-	1,075	1,055	975
Lene Skole*	550	100			-	650	650	650
Katja Barnkob	275					275	275	275
Nanna Rassov Carlson (joined March 2019)	220					220	-	-
Lars Holmqvist*	275		100			375	375	375
Andreas Slyngborg Holst (resigned March 2019)	55					55	275	275
Jacob Kastrup (resigned March 2019)	55					55	275	275
Gonzalo De Miquel	275		100	150		525	421	-
Jakob Riis*	275	150				425	425	425
Johan Smedsrud (joined March 2019)	220					220	-	-
Vincent Warnery (joined March 2019)	220					220	-	-
Former members of Board of Directors	-	-	-	-	-	-	179	900
Total	3,245	350	350	150	-	4,095	3,930	4,150

Remuneration multiple 2019, Board of Directors and committees

	Board of Directors	Audit Committee	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	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's shares.

Ownership interest in ALK

	Holding as at 31 December 2019	Changes during the year
Steen Riisgaard	1,000	-
Lene Skole*	1,150	-
Katja Barnkob	24	-
Nanna Rassov Carlson	-	-
Lars Holmqvist*	-	-
Gonzalo de Miquel	-	-
Jakob Riis*	550	-
Johan Smedsrud	-	-
Vincent Warnery	-	-
Total	2,724	-

Remuneration for Board of Management

Compensation for the CEO in 2019 totalled DKK 14.2 million, which was a decrease of 10% compared to 2018, mainly as a consequence of decrease in long-term incentives (LTI). The base salary increased by 4% to DKK 6.5 million and the short-term incentive (STI) cash bonus of DKK 4.5 million was 93% of the maximum bonus. The bonus pay-out reflected performance exceeding the Group's financial targets as well as strong global sales of SLIT-tablets. LTI (granted) decreased to DKK 2.9 million as 2018 included grant of special LTI programme.

Compensation for the EVP for R&D totaled DKK 6.0 million in 2019. This represents a decrease of 14% compared to 2018, mainly as a consequence of decrease in LTI. The base salary increased by 2% to DKK 2.9 million and the STI cash bonus was DKK 1.3 million which constituted 93% of the maximum bonus. The bonus pay-out reflected performance that exceeded expectations in connection with the Group's financial goals as well as progress in completing the tablet portfolio. LTI (granted) decreased to DKK 1.2 million as 2018 included grant of special LTI programme.

The EVP for Commercial Operations received total compensation of DKK 5.8 million in 2019, representing a decrease of 18% compared to 2018, mainly as a consequence of decrease in LTI. The base salary increased by 1% to DKK 2.9 million. The STI cash bonus was DKK 1.3 million which constituted 93% of the maximum bonus. The bonus pay-out reflected performance that exceeded expectations in connection with the Group's financial targets as well as strong global SLIT-tablet sales. Long-term incentive (granted) decreased to DKK 1.0 million as 2018 included grant of special LTI programme.

Compensation for the CFO totalled DKK 6.6 million in 2019 representing a decrease of 1%

compared to 2018, mainly as a consequence of decrease in LTI. The base salary increased by 24% to DKK 2.9 million and the STI cash bonus was DKK 1.3 million which constituted 93% of the maximum bonus. The bonus pay-out reflected performance that exceeded expectations in relation to the Group's financial goals and progress on optimization programmes. Long-term incentive (granted) decreased to DKK 1.7 million as 2018 included grant of special LTI programme.

The remuneration for the Board of Management under the long-term share-based incentive programmes consists of the total value of granted in the respective years based on fair value at the time of grant. As a supplementary information, the expensed accounting value as determined under IFRS 2 is presented separately. The actual value to the participants at the time of vesting depends on achievement of performance criteria and development in share price.

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, nonmonetary benefits, the members of Board of Management take part in short- and long-term incentive plans.

Short-term incentive plan

The STI plan is an annual cash bonus scheme 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 his annual base salary and Executive Vice Presidents may receive an annual bonus of up to a maximum of 50% of their 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 2019, 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

The LTI plan is an equity-based plan linked to the creation of shareholder value and 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 each member of the 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 is no pay-out, and with the opportunity to perform above target. Where performance is above target, a multiplier is applied that can increase the pay-out 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 LTIs 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 incentivise 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 between 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 results exceed this threshold, a defined multiplier may increase the grant/allocation by up to 300%. However, the overall pay-out 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

Board of Management's ownership interest in ALK as at 31 December 2019

	Shares 31.12.2019	Net change during the year*	Share options 31.12.2019	Net change during the year*	Conditional shares 31.12.2019	Net change during the year*	Performance shares 31.12.2019	Net change during the year*
Carsten Hellmann	2,040	-	52,056	-534	-	-	5,956	1,364
Henrik Jacobi	599	-1,534	14,234	-6,202	-	-466	2,907	577
Søren Jelert	-	-	10,330	3,805	-	-	2,097	786
Søren Niegel	2,029	16	21,643	-2,826	-	-466	2,609	473
Total	4,668	-1,518	98,263	-5,757	-	-932	13,569	3,200

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

grant of the share options and allocation of the performance shares.

Share options may be exercised in the two years after they have vested. If they are not exercised within the two years, they will expire. The performance shares are allocated to each member of the 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.

Remuneration policy

The overall aim of the policy is to provide a framework for remuneration at ALK, including specific guidelines for incentive pay. Specifically, the aim of the policy is to

ensure transparency for ALK's shareholders based on a clear, understandable and comprehensive overview of the remuneration provided by ALK.

At the annual general meeting in March 2020, the Board of Directors will present a new remuneration policy for approval by the shareholders, which will apply to the Board of Directors and the Board of Management. The

new policy has been prepared in accordance with section 139a of the Danish Companies Act, and the amended EU Directive on the encouragement of long-term shareholder engagement.

The new remuneration policy will replace the previous guidelines for remuneration and incentive pay.

Remuneration structure and remuneration for Board of Management*

DKK† Element	CEO			EVP, R&D			EVP, Commercial Operations			CFO		Objective	Remuneration level	Performance measure	
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018				
Base salary	6,500	6,250	6,250	2,854	2,798	2,798	2,900	2,881	2,551	2,850	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)	4,534	3,984	4,688	1,327	1,026	1,166	1,349	1,296	1,260	1,325	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 max is 50% of the base salary	The financial targets act as qualifiers for bonus pay-out. The remaining targets concern the 4 strategic pillars. 70% of the bonus relates to the group performance and 30% to the individual performance.	
Sign-on bonus (cash)	-	-	1,500	-	-	-	-	-	-	-	686				
Pension incl. social security	2	2	2	430	422	422	437	380	380	429	347	N/A	The EVPs have a pension scheme whereby the company contributes 15% of their base salary.	N/A	
Other benefits	243	243	243	141	141	106	142	142	219	278	288				
Total excl. long-term incentive	11,278	10,479	2,682	4,752	4,387	4,492	4,827	4,699	4,410	4,882	4,656				
Long-term incentive. Total value at grant in the respective years**	2,925	5,375	11,175	1,238	2,614	1,045	1,014	2,434	1,009	1,686	1,954	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.	
Total	14,203	15,853	23,857	5,990	7,000	5,537	5,842	7,133	5,419	6,568	6,610				
Long-term incentive (equity based) based on expensed accounting value in the respective year**	5,735	2,213	9,447	2,801	1,437	934	2,680	1,352	924	2,260	543				
Severance pay if terminated by ALK	30 months pay consisting of base salary during the termination period (6 months) and severance pay (24 months)			24 months pay consisting of base salary during the termination period (6 months) and severance pay (18 months)			19 months pay consisting of base salary during the termination period (6 months) and severance pay (13 months). The severance pay will increase by one month per year of hire until reaching a total of 18 months in 2024.			14 months pay consisting of base salary during the termination period (6 months) and severance pay (8 months). The severance pay will increase by one month per year of hire until reaching a total of 18 months in 2030.					

* The method for valuation of long-term incentive has been changed compared to 2018 and comparative numbers have been restated.

**The actual value to the participants at the time of vesting depends on achievement of performance criteria and development in share price.