

Statutory Corporate Governance statement for the financial year 2017, cf. art. 107b of the Danish Financial Statement Act

This statement forms part of the management's review in ALK-Abelló A/S' 2017 annual report covering the period 1 January to 31 December 2017.

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 2017, Steen Riisgaard was re-elected Chairman and Lene Skole was re-elected Vice Chairman. Lars Holmqvist, Anders Gersel Pedersen, Jakob Riis and Per Valstorp were all re-elected members of the Board.

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. Due to change of job during 2017 as far as one of the board members is concerned, only two board members (out of six) elected by the shareholders in 2017 can be considered independent. The Board of Directors will work towards establishing an adequate balance between independent and dependent directors.

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, production 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 pages 33 and 34 of the 2017 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 2017, the Board of Directors held nine meetings (seven in 2016); the meeting in September was a two-day seminar focusing on a new, transformational growth strategy for ALK.

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 held four meetings in 2017 (three in 2016) and the Remuneration Committee held three meetings in 2017 (three in 2016), while the Scientific Committee met once (once in 2016). The nomination committee meets on a regular basis.

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. An external facilitator conducting the self evaluation. The evaluation highlighted that in general, the Board of Directors and the Board of Management considered the cooperation to be good. The relevant skills and competencies are represented on the Board, and board processes and meetings are conducted in an open, constructive and solution-oriented dialogue. Work to further improve the dialogue and communication between the Board of Directors and Management will continue and there will be a special focus on organisational development. The chairman is leading the meetings satisfactorily.

In addition, the Audit Committee, the Remuneration Committee and the Scientific Committee evaluated their work and their cooperation with the Board of Management. The outcome of the evaluations is that issues addressed in the committees are relevant and handled in an appropriate way. The competences and skills represented in the committees are considered adequate.

Board of Directors

	Audit Committee	Remuneration Committee	Scientific Committee	Nomination Committee
Steen Riisgaard, chairman		Chairman		Chairman
Lene Skole*, vice chairman	Member			Member
Lars Holmqvist*		Member		
Andreas Slyngborg Holst				
Jacob Kastrup				
Anders Gersel Pedersen*		Member	Chairman	
Jakob Riis*	Chairman			
Katja Barnkob Thalund				
Per Valstorp	Member			

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

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%.

Following the equity offering in December 2017, ALK does not presently have an authorisation to further increase the share capital. At the upcoming Annual General Meeting in March 2018, ALK therefore intends to propose that the company's Articles of Associations are updated to include a new authorisation to Board of Directors to increase the share capital.

The Board of Directors has a standing authorisation to decide to pay extraordinary dividend.

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.net/corporate-governance.cfm>.

Board of Directors' fees

The members of the Board of Directors are not offered any share options, performance 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 2017. 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, with the Chairman of each Committee receiving DKK 150,000. At the annual general meeting in March 2018, the Board of Directors will propose that the remuneration for 2018 be unchanged.

	Holding as at 31 December 2017	Changes during the year
Steen Riisgaard	1,000	+1,000
Lene Skole*	1,150	+900
Lars Holmqvist*	0	-
Andreas Slyngborg Holst	100	-138
Jacob Kastrup	8	-
Anders Gersel Pedersen*	0	-
Jakob Riis*	550	-
Katja Barnkob Thalund	24	-
Per Valstorp	2,000	+1,000
Total	4,832	+2,762

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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 equity-based long-term incentive programmes.

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' salary for the CEO and six months' salary for other Board of Management members.

Board of Management members are granted share options and conditional shares, the value of which may not exceed 50% of the combined base salaries of the Board of Management. Grants to Board of Management members are shown in the table below and are detailed in note 5 of the 2017 annual report. Total Board of Management remuneration appears in note 4 of the 2017 annual report.

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

	Shares	**Net changes during the year	Options	**Net changes during the year	Condi-tional shares	**Net changes during the year	Perfor-mance shares	**Net changes during the year
Carsten Hellmann	900	+900	34,648	+34,648	1,140	-1,125	985	+985
Henrik Jacobi	1,538	+480	11,573	+2,718	1,061	-600	549	+549
Søren Jelert	-	-	-	-	-	-	-	-
Søren Niegel	1,918	+480	23,479	+2,624	1,061	-600	530	+530
Total	4,356	+1,860	69,700	+39,990	3,262	-2,325	2,064	+2,064

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

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. These 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 on-going 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 emphasized. 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 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 financial statements of the annual report for 2017 ('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, result 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 ALK 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 at <http://ir.alk.net/corporate-governance.cfm#aGuidelines>.

ALK is generally in compliance with all the guidelines apart from the following two elements: In 2017, one board member became dependent due to change of job. This resulted in an overweight of dependent board members. An issue which will be addressed at the AGM in 2018. With regard to disclosing details of remuneration of each member of the Board of Management, ALK only complies partially. In the opinion of the company, the most essential part is the total remuneration and any increase or decrease in this remuneration.