

## **Statutory Corporate Governance Statement for 2012, cf. art. 107b of the Danish Financial Statements Act**

This statutory corporate governance statement covers the period 1 January to 31 December 2012 and is prepared pursuant to art. 107b of the Danish Financial Statements Act. The statement forms part of the management's review in the Annual Report 2012.

### **Corporate Governance**

Since 2005, the Committee on Corporate Governance has drawn up a set of recommendations on corporate governance that has been adopted by NASDAQ OMX Copenhagen. The recommendations are generally in compliance with the practice of the OECD. ALK's Board of Directors has continuously taken the Committee's recommendations into consideration and drawn inspiration from them to discuss and in certain areas change its practice. As a result, a remuneration committee and an audit committee were set up in 2011, and ALK also decided to establish a whistleblowing scheme, ALK Alertline. The scheme is expected to be fully implemented in the first half of 2013 when the national approvals have been obtained.

ALK has considered all the Committee's 79 guidelines in a 'comply or explain' review available on ALK's website at <http://ir.alk-abello.com/guidelines.cfm>. ALK is in compliance with almost all the guidelines but has in one area chosen a different practice that is deemed to be more appropriate for the Company:

- According to the guidelines, the remuneration of each member of the Board of Management should be disclosed in detail in the annual report. ALK describes the options and conditional shares granted to each director, however, ALK believes that the disclosure of each director's individual salary and bonus would constitute an invasion of their personal privacy. The decisive factor is for the shareholders to be able to consider the overall remuneration and its development. Note 4 to the annual report for 2012 shows the combined salary and remuneration, including share options and conditional shares, of the members of the Board of Management.

In January 2013, the Committee on Corporate Governance presented a proposal for a new set of recommendations which ALK will address in the annual report for 2013 and on ALK's website.

### **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. In 2011, 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 Group 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.

### **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 2012 ('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 Group 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 Group 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.

## **Management**

The Board of Directors is ALK's supreme management body between the annual general meetings. 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 the 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 development of the Company.

The Board of Directors is authorised to let ALK acquire up to 10% of the Company's own B shares. Furthermore, the Board of Directors is authorised to increase the share capital by up to nominally DKK 10,128,360 new shares – the ratio being up to nominally DKK 920,760 A shares and DKK 9,207,600 B shares. Both authorisations are valid for the period until the next annual general meeting in 2013.

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.

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

The Board of Directors consists of nine members – six members elected by the shareholders at the annual general meeting and three members elected by the Company's employees. The members elected by the shareholders are elected for a one-year term and the employees for a four-year term. The age limit is 70 years.

At the annual general meeting in 2012, Christian Dyvig was elected as a new member instead of Brian Petersen. The other members were re-elected. The Board of Directors subsequently elected Steen Risgaard to be Chairman and Christian Dyvig to be Vice Chairman. The members of the board committees elected by the Board of Directors are listed on page 25 in the annual report for 2012.

The composition of ALK's Board of Directors is generally established with the emphasis on the members having experience from the management of international companies, particular regard being given to their insight into the management and globalisation of R&D driven companies. The Board of Directors is deemed to have the competences that are relevant to further the development of ALK.

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 are independent. All the members' profiles can be seen on page 24-25 in the annual report 2012.

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

The Board of Directors' work follows a calendar, ensuring the consideration of all relevant topics over the year. In 2012, the Board of Directors held six meetings (unchanged), the meeting in August being a two-day seminar focusing on the updated Focus 2016 strategy, which was followed up on by the Board of Directors in November. The Audit Committee and the Remuneration Committee both met three times (two and three meetings, respectively, in 2011).

At the end of the year, the Board of Directors evaluated its work and its cooperation with the Board of Management. The evaluation was based on a questionnaire and conducted with the aid of an external consultant who presented the results at the Board of Directors' meeting in December. In general, the Board of Directors and the Board of Management considered the cooperation very sound. The establishment of board committees in 2011 has resulted in better opportunities for thorough information and discussion between the Board of Management and the Board of Directors. The Board of Directors and the Board of Management have been particularly satisfied with the work on ALK's new strategy in 2012. In 2013, one focus area for the Board of Directors will be the continuous follow-up on the implementation of the Focus 2016 strategy.

#### **Directors' fees**

The directors' fees were unchanged in 2012. 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 and the Audit Committee receive a fee of DKK 100,000 – the Chairman of each Committee receiving DKK 150,000. The Board of Directors recommends to the annual general meeting that the fees be maintained in 2013. The members of the Board of Directors are not offered any share options, conditional shares or other incentive plans.