

Statutory Corporate Governance statement for the financial year 2018,

cf. art. 107b of the Danish Financial Statement Act

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This statement forms part of the management's review in ALK-Abelló A/S' 2018 annual report covering the period 1 January to 31 December 2018.

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. In 2018, however, there was a vacant position on the Board among the members elected by the annual general meeting.

At the annual general meeting in 2018, Steen Riisgaard was re-elected Chairman and Lene Skole was re-elected Vice Chairman. Lars Holmqvist and Jakob Riis were re-elected members of the Board, and Gonzalo De Miquel was elected as a new member. Anders Gersel Pedersen and Per Valstorp did not seek re-election.

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. Only two board members (out of five) elected by the

shareholders in 2018 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 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 41 and 42 of the 2018 annual report along with details on their specific competences, 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 2018, the Board of Directors held seven meetings (nine in 2017); the meeting in September

was a two-day seminar focusing on the transformational growth strategy for ALK adopted last year. All members have been present at the meetings in person, apart from one employee-elected member being excused at one meeting.

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 three meetings in 2018 (four in 2017), and the Remuneration Committee held four meetings in 2018 (three in 2017) of which one was a telephone meeting, while the Scientific Committee met once (once in 2017). The Nomination Committee meets on a regular basis.

All persons have been present at the committee meetings apart from one board member being excused at an Audit Committee meeting.

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 conducted the self evaluation. The evaluation highlighted that the relevant skills and competences 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 more attention is required on R&D and long-term development. The Board of Directors has started addressing this in the Scientific Committee. The chairman is leading the meetings satisfactorily.

In addition, the Audit Committee and the Remuneration 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. Focus areas for 2019 have been agreed on.

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%. For the period up to and including 11 March 2023, the Board of Directors is authorised to increase the company's share capital by one or more issues of new

shares with a nominal value of up to DKK 11,141,196, equivalent to AA shares with a nominal value of up to DKK 1,012,836, and B shares with a nominal value of up to DKK 10,128,360.

The Board of Directors has a standing authorisation to decide to pay extraordinary dividend. However, the Board has currently temporarily suspended dividend payments as part of ALK's transformation growth strategy.

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 <https://ir.alk.net/corporate-governance>.

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 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

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	Member
Katja Barnkob				
Lars Holmquist*		Member		
Andreas Slyngborg Holst				
Jacob Kastrup				
Gonzalo De Miquel		Member	Chairman	
Jakob Riis*		Chairman		

* 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

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 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 2018 ('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 (<https://corporategovernance.dk/english>) has drawn up a set of recommendations on corporate governance that has been adopted by NASDAQ Copenhagen. The recommendations are considered to be in compliance with the OECD's current principles of corporate governance. 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 <https://ir.alk.net/corporate-governance#aGuidelines>

ALK is generally in compliance with all the guidelines apart from the following two elements: In 2018, there was an overweight of not independent directors on the Board (three out of five). The Board will work towards establishing an adequate balance between independent and dependent directors in 2019, when the number of board members will be re-established at six members. In 2018, the majority of members of the Audit Committee was not independent as the Board considered this the best possible option available in terms of experience and capabilities.