

ANNUAL GENERAL MEETING OF ALK-ABELLÓ A/S – 15 MARCH 2017

Guidelines for incentive pay for the Board of Directors and the Board of Management in ALK-Abelló A/S (in Danish: Overordnede retningslinjer for incitaments aflønning)

1. Introduction

Pursuant to section 139 of The Danish Companies Act, the Board of Directors of ALK-Abelló A/S (“ALK”) is required to lay down general guidelines for ALK’s incentive pay to the members of the Board of Directors and the Board of Management before any specific agreements on incentive pay can be made. These guidelines for incentive pay are prepared in accordance with the Danish Companies Act and shall be considered and approved by ALK’s shareholders at ALK’s general meeting, and information on incentive pay shall be incorporated in the Company’s Articles of Association, cf. section 139(2) of the Danish Companies Act.

The aim of these guidelines is to provide a framework for incentive pay at ALK. This includes a framework for the variable pay component based on ALK’s short-term and long-term objectives and aligned with the interests of the shareholders, thereby ensuring that the remuneration structure does not lead to carelessness, unreasonable conduct or acceptance of unusual risk.

The approved guidelines for incentive pay cover remuneration to be agreed after 15 March 2017.

In addition to these Guidelines for incentive pay (in Danish: Overordnede retningslinjer for incitaments aflønning), also Remuneration Guidelines for the Board of Directors and the Board of Management in ALK (in Danish: Vederlagspolitik) apply in relation to remuneration at ALK. Both guidelines are available on ALK’s website.

2. Board of Directors

The Board of Directors is not offered any share options, warrants, bonus, or other incentive plans.

3. Board of Management

The incentive pay for the Board of Management concerns all ALK executives registered with the Danish Business Authority. Under ALK’s Articles of Association, the registered Board of Management shall consist of not less than 1 and not more than 6 members. The Board of Management currently consists of 5 members.

The employment terms and the incentive pay to the Board of Management are specifically agreed between each individual member of the Board of Management and the Board of Directors.

3.1 Process

The incentive pay for the Board of Management is recommended by the Remuneration Committee and subsequently approved by the Board of Directors. Levels are evaluated annually against a benchmark of relevant Danish companies as well as European biopharmaceutical companies of comparable market capitalisation, stage of development, and therapeutic area. The Committee reviews market data for each executive’s position, including information relating to the mix and levels of remuneration.

3.2 Principles

ALK rewards the Board of Management in accordance with the principles set out below.

Market competitive remuneration

ALK offers market competitive remuneration opportunities, including incentive pay in order to attract, retain, and motivate the talent needed to achieve ALK's vision and business objectives.

Pay for performance

An appropriate proportion of the remuneration package is performance-based to ensure that remuneration links to the achievement of key financial and non-financial objectives with a balance of short- and long-term performance components.

Alignment with the values

4 values underpin ALK's company culture and provide broad guidance to employees:

- Progressive
- Trustworthy
- Focused
- United

Remuneration plans are designed and communicated in a manner that reinforces the linkage to business objectives, vision, and culture.

Alignment with shareholders

ALK's incentive pay plans will align the interests of the Board of Management in driving value creation for the shareholders.

3.3 Incentive plans

To ensure a strong alignment of interests between ALK's shareholders and the Board of Management, the executive remuneration package includes 2 variable components: short-term and long-term incentive plans. The short-term plan is an annual cash bonus linked to the achievement of pre-defined financial and non-financial objectives, set collectively or individually for the members of the Board of Management. The long-term plan is an equity-based plan linked to the creation of shareholder value and to the fulfilment of the strategic goals. Combined the 2 plans aim to promote sound business decisions that ensure a sustainable balance between short-term results and long-term growth.

3.3.1 Short-term incentive plan – cash bonus

The aim of the short-term incentive plan is to incentivise the Board of Management to fulfil ALK's short-term objectives. The CEO may receive an annual bonus up to a maximum of nine months of the annual base salary and the Executive Vice Presidents may receive an annual bonus up to a maximum of six months of the annual base salary. The size of the bonus payout depends on the fulfilment of objectives agreed upon for 1 year at a time.

The objectives are set by the Board of Directors and consist of financial and non-financial goals to ensure a balanced development of the business. The financial goals reflect the financial parameters that the Board of Directors considers the most critical annual measure to achieve ALK's business objectives, vision, and culture, including the fulfilment of ALK's budgeted results. The financial goals act as a bonus qualifier with a predefined threshold for achievement of each financial target.

The Remuneration Committee evaluates the degree of achievement for each member of the Board of Management, based on input from the CEO, and recommends to the Board of Directors a bonus payout.

In 2016, the short-term incentive plan was mainly based upon the following key performance indicators (KPIs), selected from a number of categories critical to the continued growth of the business:

Category	KPIs related to:
Financials	EBITDA Base business revenue
Transition to evidence-based products	North America Successful approval of HDM SLIT-tablet in USA and launch in Japan, Scandinavia and Germany Plan and execute steps to move portfolio towards evidence-based products
Next generation products	Progress according to plan

The financial goals acted as a qualifier already in 2016.

3.3.2 Long-term incentive plan – equity-based

ALK's long-term incentive plan is designed to promote the fulfilment of the strategic goals and align the interests of executives and shareholders. Every year the Board of Directors decides whether a plan shall be established. The value of the plan will be in the range of 30-50% of the annual base salary at the time of the grant.

To balance the amount of risk to which the participants are exposed, the total value at the date of grant will be split equally on share options and performance shares. Where the share options have a high gearing, the performance shares have a high intrinsic value. Combined, the instruments drive different objectives while balancing the risks of each tool.

Both plans are subject to the fulfilment of economic indicators with a threshold below which there will be no payout, and with the opportunity to perform above target. In case of performance above target, a multiplier is used that can increase the payout up to 100%.

3.3.2.1 Share options

The aim of granting share options to the Board of Management is to provide an incentive tool with a strong link to value creation for the shareholders. Grants may be made annually and usually in connection with the annual general meeting. The target present value at the date of grant of options granted in any one year may not exceed 25% of the base salary of the recipient (but in case of significant over-performance may go as high as 50%). The present value at the date of grant is computed using the Black & Scholes model.

Share options are exercisable no earlier than 3 years following the grant and will lapse if they remain unexercised 5 years after the grant.

The exercise price of the options may not be lower than the market price of ALK's shares at, or immediately before, the date of grant. The exercise price will be calculated as the average share price 5 days before the grant.

ALK may on an ongoing basis cover any options granted through the purchase of treasury shares.

As of 31 December 2016, the Board of Management held a total of 43,795 outstanding share options exercisable in the period from 1 May 2013 until 1 March 2023.

3.3.2.2 Performance shares

Apart from share options, members of the Board of Management are eligible for shares under the terms of a performance share plan. The aim of the performance share plan is to provide a tool with a strong link to the fulfilment of ALK's long-term objectives.

The value of the annual grants of shares to the Board of Management may not exceed 25% of the recipient's base salary (but may go as high as 50% in case of significant over-performance). The value at the date of the grant is computed on the basis of the market price of the granted B shares during a period of 5 days immediately prior to the date of the grant.

Grants may be made annually and usually in connection with the annual general meeting.

The performance share plan is constructed so that each member of the Board of Management is granted a right to receive a number of shares after 3 years if predefined performance criteria have been met. The criteria are set by the Board of Directors and consist of financial objectives and a measure for economic value creation. The right is granted without an obligation to pay for the shares.

ALK may on an ongoing basis cover any performance share rights granted through the purchase of treasury shares.

3.3.3 Reclaiming variable pay

ALK has the right to reclaim in full or in part incentive payments that were paid on the basis of data which proves to be manifestly and significantly misstated.

4. Approval and publication

These guidelines were considered and approved at ALK's Annual General Meeting held on 15 March 2017.

The guidelines are posted on ALK's website at <http://ir.alk.net/corporate-governance.cfm>. Moreover, the annual report includes a list of the aggregate salaries paid to the members of the Board of Management as well as the number of options granted and outstanding and the value thereof.

Pursuant to section 139 of the Danish Companies Act, section 9a in ALK's Articles of Association states that ALK has adopted guidelines for incentive pay to ALK's Board of Management.

In the capacity of chairman of the meeting:

Niels Kornerup