

# Remuneration Guidelines

## Remuneration guidelines for the Board of Directors and the Executive Management of H. Lundbeck A/S

*Approved at the Annual General Meeting, 31 March 2016*

### 1. Introduction

In accordance with section 139 of the Danish Companies Act - Consolidated Act No. 610 of 28 April 2015 as amended - it is a condition for entering into specific agreements on incentive programs with members of the Executive Management that the Board of Directors has set overall guidelines for incentive programs included in the remuneration of the Executive Management and that these guidelines have been approved by Lundbeck's General Meeting and published on the company's website.

In recommendation 4.1.1 of the Corporate Governance Recommendations it is recommended that the Board of Directors prepare a clear and transparent remuneration policy for the Board of Directors and the Executive Management, which are approved by Lundbeck's General Meeting and published on the company's website. The remuneration policy is comprised within these guidelines.

In preparing these guidelines, the Remuneration Committee of the Board of Directors has used external advisors.

### 2. Board of Directors

As an international pharmaceutical company, Lundbeck must attract competent expertise from the international business community for the Board of Directors by offering a competitive compensation. Members of the Lundbeck Board of Directors receive a fixed annual remuneration that is benchmarked to international peer companies. The ordinary board members receive a base fee while the Chairmanship receives a multiple of this. Committee members receive an additional fee. Members of the Lundbeck Board of Directors do not participate in bonus or incentive programs.

Lundbeck will pay potential mandatory contributions to social security or similar taxes or duties that are imposed on Lundbeck due to the board members' membership of the Lundbeck Board of Directors.

The remuneration of the Board of Directors is reviewed on an annual basis.

### 3. Executive Management

The remuneration of the Executive Management members is the responsibility of the Board of Directors and shall promote actions to achieve Lundbeck's aspirations.

The Executive Management includes executives in the company listed as such with the Danish Business Authority (Erhvervsstyrelsen).

The remuneration guidelines for Executive Management members are outlined in the following.

### **3.1 Remuneration guideline statement**

To achieve Lundbeck's vision, it is essential that the executive remuneration program rewards the Executive Management members for achieving stretched targets for short and long-term performance.

In order to achieve this, a competitive compensation package is provided, with the opportunity to achieve significant rewards if Lundbeck provides shareholder value.

### **3.2 Remuneration elements**

The following elements can be used in the remuneration of the Executive Management: base salary, pension, benefits, annual cash bonus (STI) and share-based instruments (LTI). Each of these will be described separately.

The components of base salary, pension and benefits are fixed, whereas the components of bonus and share-based instruments are variable. Variable compensation is considered an important key driver for value creation and medium to long-term growth in shareholder value. Therefore, a considerable part of the total compensation consists of variable compensation.

Conditions for notice of termination of employment are determined individually in the contract of each of the members of the Executive Management. The general policy for severance payment to members of the Executive Management is in line with section 4.1.5 in the Corporate Governance Recommendations.

#### **3.2.1 Base salary, pension and benefits**

##### **3.2.1 (a) Base salary**

The base salary policy for Executive Management members is to position base salaries at market level. The remuneration benchmarks that are sourced consist of companies with a comparable level of Executive Management.

##### **3.2.1 (b) Pension**

The pension scheme for Executive Management is a defined contribution scheme that corresponds to the market level and includes both a savings part and an insurance coverage associated with general practice for pension schemes.

##### **3.2.1 (c) Benefits**

The members of the Executive Management are entitled to company benefits in accordance with the company policy.

#### **3.2.2 Short-Term Incentive program (STI)**

The members of the Executive Management participate in a STI program that provides an annual bonus for the achievement of predetermined targets of the preceding financial year. The CEO will have an opportunity to receive a maximum of 9 months' worth of base salary in bonus in case of exceptional performance. Other

members of the Executive Management will have an opportunity to receive a maximum of 6 months' worth of base salary in bonus in case of exceptional performance.

The bonus scheme is based on group targets and individual targets. The group criteria reflect the financial parameters that the Board of Directors considers to be the most critical annual measures to enable Lundbeck to achieve its vision. All targets and bonus payments require prior approval from the Board of Directors, based on recommendations made by the Remuneration Committee.

The Board of Directors strives to be as objective as possible, however underlying conditions might change the basis for the annual bonus plan/targets. The Board of Directors has the responsibility to execute sound business judgement on evaluating the impact of these changes and as a result hereof decide on the final bonus payments.

### **3.2.3 Long-term Incentive program (LTI)**

The Board of Directors will on an annual basis decide whether or not to establish a LTI program for the Lundbeck group for the coming calendar year. The LTI program may include both warrants, options, restricted share units and other forms of share-based instruments ("LTI Instruments").

When a LTI program is established, the members of the Executive Management may participate with an awarded value of LTI Instruments for the grant year of up to a maximum of 8 months' of base salary (at the time of grant) for the CEO and 6 months' of base salary (at the time of grant) for other members of the Executive Management. The value of the LTI Instruments, and thereby the possible maximum LTI Instruments allocation, will be calculated on the basis of Lundbeck's average share price in the first 10 banking days after publication of Lundbeck's annual report for the year prior to the calendar year where the decision to establish a LTI program is adopted by the Board of Directors. Where applicable, the valuation will be based on an option model. Any changes in the share price between the time of calculation of the LTI Instruments value and the time of grant of the LTI Instruments will not affect the possible maximum LTI Instruments allocation.

LTI Instruments granted under a LTI program will vest after three years from grant and warrants and options may upon decision of the Board of Directors be exercised during a period of up to ten years from grant. The targets for granting and/or vesting, if any, will be defined by the Board of Directors and may include financial and strategic targets of Lundbeck as well as individual targets. If none of the targets are met, none of the LTI Instruments will be granted/will vest. It is a prerequisite for Executives Management's vesting rights that their employment with Lundbeck is not under notice or terminated for any reason by any party throughout the vesting period. The Board of Directors may decide that this prerequisite shall not apply in certain "good leaver" situations.

In the case of an event that significantly changes the basis for the grants, or changes the activities and the strategies of the company, the Board of Directors reserves the right to, during the entire vesting period, reduce the number of LTI Instruments awarded to any member of the Executive Management.

The Board of Directors will seek approval separately for LTI programs that are not part of the annual LTI program.

### **3.2.4 One off warrant programs**

Under the one-off Warrant Program 2014, the members of the Executive Management at that time were offered to participate with a grant value up to 42 months of base salary. The warrants will vest after a period of 3 years in 2017, subject to the Board of Director's decision on vesting (having regard to i.e. the financial situation of the Lundbeck group), provided that the employment in Lundbeck is not under notice or terminated.

The exercise price for the warrants will be a fixed strike course calculated on the basis of Lundbeck's average share price in the first 10 banking days after publication of Lundbeck's annual report for 2013 with an annual hurdle rate of 4% adjusted for dividend payout. If the warrants are not exercised before 30 April 2020 they will expire. The Executive Management received the warrants free of charge.

The present CEO will be offered to participate in the one off Warrant Program 2014 on equal terms as the former CEO, which is no longer part of the program. The number of warrants offered to the present CEO will be pro-rated relative to the period of time the present CEO has been part of Lundbeck. All other terms will be similar to those that apply for the existing Warrant Program 2014. This will i.e. imply that the warrants will vest in 2017 and that the strike course and expiration date will be similar to those that apply for the existing Warrant Program 2014 and that the CEO will receive the warrants free of charge.

The grant value at the time when the present CEO entered Lundbeck corresponded to 10 months of base salary. The grant value as of 7 March 2016 corresponds to 54 months of base salary.

Any member of the Executive Management who has accepted participation in the Warrant Program 2014 will not participate in the annual LTI programs 2014, 2015 and 2016. The Board of Directors may allow any new members of the Executive Management to participate in annual LTI programs.

### **3.3 Reclaim of STI and LTI**

If it is ascertained that an annual bonus or benefits under the STI or LTI program were calculated and/or received based on information that subsequently proves to be misstated, and the receiving member of the Executive Management has acted in bad faith, Lundbeck shall be entitled to reclaim the bonus or benefits in full or in part.

## **4. Guideline for implementation**

These guidelines were updated by the Board of Directors at its meeting on 9 February 2016, and will, subject to approval at Lundbeck's Annual General Meeting on 31 March 2016, be publicly available on Lundbeck's corporate website.

These guidelines apply to all agreements on remuneration with members of the Executive Management that may be entered into after the publication of these guidelines on Lundbeck's corporate website.

The Board of Directors can change the current and future agreements on remuneration for the Executive Management within the limits of these guidelines. Changes to the guidelines must be approved by the General Meeting.

The Board of Directors

9 February 2016

Håkan Björklund (Chairman)

Lene Skole (Deputy Chairman)

Terrie Curran, Mona Elisabeth Elster, Lars Holmqvist,

Henrik Sindal Jensen, Jørn Mayntzhusen, Jesper Ovesen, Lars Rasmussen