

# LUNDBECK REMUNERATION REPORT 2018

## REMUNERATION REPORT

Remuneration is a key lever in recruiting, motivating and retaining our high-performance leaders and supporting our strategic goals. The objective of our remuneration guidelines is to ensure this and to align the interest of our Executive Management and Board of Directors with the interest of our shareholders.

The remuneration guidelines aim to find the right balance between fixed and incentive-based remuneration and to reward Management for both company and individual performance. The remuneration guidelines can be found at: <https://lundbeck.com/global/about-us/corporate-governance/remuneration>.

## REMUNERATION STRUCTURE FOR EXECUTIVE MANAGEMENT\*

The remuneration structure for registered members of the Executive Management consists of a fixed salary, a cash-based incentive scheme (STI), a share-based incentive scheme (LTI), pension payments and other benefits. The two incentive schemes are described in more details below.

### The Cash-Based Incentive Scheme (STI)

The members of the Executive Management participate in a cash-based incentive scheme (STI) that provides an annual bonus for the achievement of predetermined targets. The STI performance measure is based on 70% company financial performance and 30% individual performance. The company performance is measured with an EBIT target and revenue target with base target being the middle of the financial guidance range.

The CEO is entitled to receive a maximum of 14 months' worth of fixed salary in bonus in case of exceptional performance, subject to the 2019 Annual General Meeting's approval of amended remuneration guidelines for Lundbeck.

Other members of the Executive Management may receive up to a maximum of 6 months' worth of base salary in bonus in case of exceptional performance.

The Board of Directors approves objectives and assesses the performance of the Executive Management annually.

### The Share-Based Incentive Scheme (LTI)

The members of the Executive Management participate annually in a share-based incentive scheme (LTI). The instruments granted in the program are restricted share units (RSUs) or restricted cash units (RCUs). If the company achieves a pre-defined financial target at the time of granting, the Executive Management members will be granted a number of RSUs or RCUs. For the 2018 program, the financial target for granting is an EBIT margin of 28.4% for the 2018 financial year.

The CEO may participate with an awarded value of LTI for the grant year of up to a maximum of 12 months of fixed salary at the time of grant, subject to the 2019 Annual General Meeting's approval of amended remuneration guidelines for Lundbeck. Other members of Executive Management may participate with an awarded value of LTI of up to 6 months of fixed salary at the time of grant.

The granted RSUs have a vesting period of three years, after which each RSU entitles the holder to receive a number of shares free of charge. The vesting is dependent on Board of Director evaluation and the Executive Management member's continuous employment at Lundbeck during the vesting period. The Board of Directors may decide that the continuous employment prerequisite shall not apply in certain situations. Moreover, the Board of Directors has decided that this prerequisite shall not apply to the CEO in certain 'good leaver' situations.

\*Remuneration report for the Executive Management registered with the Danish Business Authority

**REMUNERATION FOR EXECUTIVE MANAGEMENT IN 2018**

**Deborah Dunsire** started as CEO of Lundbeck on 1 September 2018 and the remuneration received in 2018 totaled DKK 6.9 million. The fixed salary for the period amounted to DKK 3.4 million being 49% of the total remuneration in 2018. The cash bonus (STI) totaled DKK 3.3 million, corresponding to 97% of the maximum bonus. The bonus percentage reflects an exceptional company performance in 2018 where Lundbeck achieved the best financial result in its history. The company financial target and bonus achievement is the same for all members of Executive Management. The score for the CEO's individual targets was a result of speedy and successful onboarding process and the progress of the strategy renewal exercise. For the CEO, Lundbeck will cover the tax indemnification regarding investment return from personal assets. This indemnification will cover any increase in income taxation between Denmark and US on investment returns up to a certain cap. This may have an impact from 2019.

The remuneration paid to Lundbeck's CFO, **Anders Götzsche** totaled DKK 12.3 million in 2018. Anders Götzsche also held the role of interim CEO until 1 September 2018. This is a contributing factor to the increase of 31% in total remuneration compared to 2017. The fixed salary element was DKK 5.9 million making up 47% of the total remuneration in 2018. The cash bonus (STI) totaled DKK 3.8 million, corresponding to 96% of the maximum bonus. The score for the CFO's individual targets was affected by his role as interim CEO where he ensured a smooth transition period and onboarding of the new CEO.

The remuneration paid to **Jacob Tolstrup**, EVP Commercial Operations, totaled DKK 7.8 million in 2018. His fixed salary for the period amounted to DKK 3.7 million amounting to 47% of the total remuneration in 2018. The cash bonus (STI) totaled DKK 1.8 million, corresponding to 96% of the maximum bonus. This bonus achievement was results from the successful driving of profitable sales growth and supporting the pipeline through Business Development namely with the Prexton Therapeutics acquisition.

**Lars Bang**, EVP Product Development & Supply, received a remuneration in 2018 totaling DKK 8.5 million. His fixed salary for the period amounted to DKK 3.8 million making up 45% of the total remuneration in 2018. The cash bonus (STI) totaled DKK 1.8 million, corresponding to 94% of the maximum bonus. This bonus achievement is the result of a reliable and cost efficient supply chain in 2018.

The remuneration to **Anders Gersel Pedersen**, EVP Research & Development, totaled DKK 17.0 million in 2018. His fixed salary for the period amounted to DKK 4.3 million being 26% of the total remuneration in 2018. The cash bonus (STI) totaled DKK 2.0 million, corresponding to 92% of the maximum bonus. Anders Gersel Pedersen retired 31 December 2018 and his total remuneration for 2018 contains his retirement package, which consists of the usual monthly fixed salary and pension payments, bonus payments, cash payment of a portion of non-vested long-term incentives and other benefits. A part of the actual payout of the retirement package will take place during 2019.

In 2018, all members of the Executive Management except the CEO were granted LTI in accordance with the sharebased incentive program. The CEO participates on a proportional basis for 2018 corresponding to the start at Lundbeck on 1 September 2018. The remuneration for granted LTI-programs is the market value of the scheme at the time of grant distributed over the vesting period.

The table below comprises an overview of the remuneration structure and remuneration to the members of the Executive Management in 2016-2018.

## OVERVIEW OF REMUNERATION FOR THE EXECUTIVE MANAGEMENT 2016-2018

DKKm	DEBORAH DUNSIRE PRESIDENT & CEO			ANDERS GÖTZSCHE EVP & CFO			JACOB TOLSTRUP EVP, COMMERCIAL OPERATIONS			LARS BANG EVP, PRODUCT DEVELOPMENT & SUPPLY			ANDERS GERSEL PEDERSEN EVP, R&D			OBJECTIVE	REMUNERATION LEVEL	PERFORMANCE MEASURE
ELEMENTS	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016			
Fixed Salary	3.4	-	-	5.9	4.3	3.8	3.7	2.6	2.1	3.8	3.8	3.3	4.3	4.2	4.1	Attract and retain qualified experts.	Competitive salary levels compared towards peers with salary benchmarking.	N/A
Cash-bonus (STI)	3.3	-	-	3.8	2.3	1.8	1.8	1.7	0.9	1.8	1.7	1.5	2.0	2.0	1.9	To promote actions to achieve Lundbeck's aspirations and to create a clear link between value creation and payment.	The Executive Management are entitled to receive STI at a remuneration level set out in the general description above.	A combination of financial targets (70%) and individual targets (30%).
Pension	-	-	-	1.5	1.1	1.0	1.0	0.7	0.5	1.0	1.0	0.9	1.1	1.1	1.1	N/A	Includes both a pension and an insurance coverage associated part totalling 26.1% of fixed salary.	N/A
Other benefits	-	-	-	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	N/A	The members of the Executive Management are entitled to a company car and other benefits in accordance with company policy.	N/A
Equity- and cash-settled incentive programs	0.2*	-	-	0.9	1.5	3.9	1.1	0.9	0.7	1.7	1.4	1.1	-0.4**	1.7	4.2	Reward long-term value creation and align the Executive Management's interests with those of the shareholders.	The Executive Management are entitled to receive LTI at a remuneration level set out in the general description above.	Grant based on achieving Group EBIT performance.
Severance pay or Retirement package	-	-	-	-	-	-	-	-	-	-	-	-	9.8	-	-	N/A	If a member of the Executive Management is terminated by the company, the person is entitled to salary during the notice period (18 months for the CFO, 12 months for other members). In addition to salary during the notice period, the CEO is entitled to 12 months' severance pay.	N/A
<b>Total, DKKm</b>	<b>6.9</b>	<b>--</b>	<b>--</b>	<b>12.3</b>	<b>9.4</b>	<b>10.7</b>	<b>7.8</b>	<b>6.1</b>	<b>4.4</b>	<b>8.5</b>	<b>8.1</b>	<b>7.0</b>	<b>17.0</b>	<b>9.2</b>	<b>11.5</b>			

\*DKK 0.2m expensed in the annual accounts for 2018 due to accounting standards. However, the LTI will be granted in 2019.

\*\*DKK -0.4m is the result of reversing previously expensed non-vested LTI programmes.

**REMUNERATION FOR THE BOARD OF DIRECTORS**

At the Annual General Meeting in March 2018, the Board of Directors' remuneration was approved. It was decided to keep the Board of Directors fixed annual fee of DKK 350,000 unchanged from 2017.

The members of the Board of Directors receive a fixed annual remuneration. The board members receive a fixed annual fee while the Chairman receives three times the fixed annual fee and the Deputy Chairman double the fixed annual fee.

Board members receive additional remuneration for their work in Board Committees. The members' travel expenses are covered by the company.

Members of the Board of Directors do not participate in bonus or incentive programmes. However, employee-elected board members may, based on their employment, be covered by general incentive schemes applicable to the Lundbeck Group's employees.

**OVERVIEW OF REMUNERATION FOR THE BOARD OF DIRECTORS 2016-2018**

DKK'000

ELEMENTS	Annual Fee	Audit Committee	Remuneration Committee	Scientific Committee	2018	2017	2016
LARS SØREN RASMUSSEN	1,050	200	300	-	1,550	1,513	1,175
LENE SKOLE-SØRENSEN	700	-	200	200	1,100	1,025	850
LARS ERIK HOLMQVIST	350	200	-	-	550	538	500
JEREMY MAX LEVIN	350	-	-	300	650	488	-
JEFFREY BERKOWITZ (JOINED IN MARCH 2018)	263	-	-	150	413	-	-
HENRIK ANDERSEN (JOINED IN MARCH 2018)	263	225	-	-	488	-	-
RIKKE KRUSE ANDREASEN (JOINED IN MARCH 2018)	263	-	-	-	263	-	-
LUDOVIC TRANHOLM OTTERBEIN (JOINED IN MARCH 2018)	263	-	-	-	263	-	-
HENRIK SINDAL JENSEN (RE-JOINED IN DECEMBER 2018)	117	-	-	-	117	338	300
<b>TOTAL*</b>	<b>3,617</b>	<b>625</b>	<b>500</b>	<b>650</b>	<b>5,392</b>	<b>3,902</b>	<b>2,825</b>

\*Total remuneration for the Board of Directors active as of 31 December 2018.