



RECOMMENDATIONS ON **CORPORATE GOVERNANCE**

COMMITTEE ON
CORPORATE GOVERNANCE
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PREFACE

The purpose of corporate governance is to support value creation and accountable management, and thus to contribute to strengthen the long-term competitiveness of the companies. These recommendations aim to ensure confidence in companies.

Recommendations by the Committee are best practice guidelines for the management of companies with shares admitted to trading on a regulated market in Denmark, including Nasdaq Copenhagen A/S. The recommendations should be viewed together with the statutory requirements, including not least the Danish Companies Act and the Danish Financial Statements Act, European Union company law, the OECD Principles of Corporate Governance, etc.

Companies differ, and accordingly, work on planning and reporting corporate governance may vary. The most important aspect of the recommendations is to ensure that investors have an insight into the companies, as well as an understanding of the potential of the companies.

Companies should generally follow these recommendations. In order to create the transparency necessary for investors and other stakeholders, companies must consider each of the recommendations and provide information on whether or not they will be complying with the recommendation concerned (comply or explain principle). The descriptions provided for each of the recommendations must be specific and adequate.

In 2017, the committee carried out a review of the recommendations in light of the need for updating several elements of the recommendations from 2013. The experience drawn from dialogue with companies and stakeholders' points to the desire for a simplification of the recommendations. The Committee assumes that companies comply with statutory requirements in companies accounting, auditing and stock exchange legislation without repeating these requirements in these recommendations. The recommendations will thus to the greatest extent possible, not include elements that are directly stipulated in legislation or which are largely part of company practice.

The Committee will monitor developments in corporate governance continuously to develop the recommendations to comply with the soft law principle, as need be.

These recommendations will replace the Committee's recommendations of 6 May 2013, with later amendments in 2014, and shall be applicable to the financial years commencing on 1 January 2018 or later and shall be used at the General Meeting that reviews the annual report for 2018 or later.

Copenhagen, November 23, 2017

Committee on Corporate Governance

INTRODUCTION

1. The Committee's work

The Committee was commissioned to monitor corporate governance developments at national and international level, as well as to strive for continuity in corporate governance work in Denmark. Furthermore, the Committee is to collect views and experience with the Recommendations on Corporate Governance, adjust the recommendations, and ensure that the recommendations, following an overall assessment, be appropriate for Danish companies and comply with Danish and European Union company law and recognised best practice.

The Committee published an independent set of Recommendations for active Ownership in November 2016. The Committee is also responsible for monitoring the development within active ownership, both nationally and internationally. These recommendations can be found on the Committee's website.

Supervision of companies' compliance with rules and regulations is exercised by the Danish Financial Supervisory Authority, the Danish Business Authority and Nasdaq Copenhagen A/S. Nasdaq Copenhagen A/S annually reviews all companies admitted to trading here. As part of this review, Nasdaq Copenhagen A/S studies a selection of these companies to identify development trends or the areas in which there may be a need to guide companies in their work on corporate governance. Based on this study, the Committee prepares an annual report, which is published on the Committee's website.

It is important for the Committee that the recommendations be an appropriate tool for companies to implement good corporate governance.

The Committee's comments on the recommendations may be included as guidelines and inspiration for companies in their work on the recommendations. The Committee has also drawn up several guidelines, which can be used as inspiration. The guidelines are available at the Committee's website, www.corporategovernance.dk. The reporting on corporate governance itself should only be carried out in compliance with the specific recommendations of the Committee, and not according to the comments or guidelines.

The activities of financial undertakings are regulated by statute. Consequently, the Committee has chosen not to introduce specific recommendations for the financial sector.

2. Target group

The recommendations are aimed at Danish companies with shares admitted to trading on a regulated market in Denmark. Such companies have chosen to be publicly traded companies. Transparency is essential to ensure that investors and other stakeholders are able to evaluate the performance of such companies.

The recommendations or parts thereof may also motivate companies not admitted to trading on a regulated market in Denmark, e.g. state-owned companies, other companies of special public interest or certain companies owned by funds.

3. Soft law and its implications

The recommendations are "soft law" and thus more flexible than legislation ("hard law"). Whereas regulation by law typically provides a minimum standard that forms the framework for company conduct, soft law reflects best practice. Furthermore, soft law is characterised by a high degree of voluntarism, which provides the recommendations with the flexibility necessary for companies to adjust the principles on corporate governance to the circumstances.

Soft law is more dynamic than traditional legislation as it is more easily adapted to the developments within the areas affected. This enables the recommendations remain continuously up-to-date. Soft law is often an alternative to actual legislation, and well-functioning soft law can contribute towards introducing hard law in areas where greater flexibility is needed to continuously adapt regulations to developments in society.

The flexibility of the recommendations is essential, as there is no one-size-fits-all solution for all companies when it comes to corporate governance. Thus, the recommendations enable the individual company to organise its governance optimally and not within a fixed framework.

The comply or explain approach is a key element of the recommendations; in Denmark, this principle is laid down in section 107b of the Financial Statements Act and in the Nasdaq Copenhagen A/S rules for issuers of shares. Any explanation given must relate to each recommendation and enable the reader to understand the company's style of management.

4. The comply or explain approach

Reports by companies on good corporate governance must be according to the comply or explain approach. This means that the individual companies decide which recommendations it chooses to comply with or not to comply with. It is thus acceptable that a company chooses to explain instead of to comply with a specific recommendation. In such cases, the company must explain:

1. *why* it has chosen not to comply with the recommendation, and
2. *what* it has chosen to do instead.

The key element is thus for the company to adequately explain why it has chosen to act differently than the recommendation dictates, so that the necessary transparency regarding the specific matter exists. Furthermore, note that reporting must reflect the situation at the time of reporting. In the event of significant changes during the year, or after the balance sheet date, this should be described in the corporate governance report.

5. Reporting

Pursuant to the Financial Statements Act, information regarding companies' compliance with the principles of corporate governance must be provided in a corporate governance report published either in the management commentary or on the company's website with exact reference to the management commentary.

Publication on the website

The Committee believes that the greatest transparency is achieved when the corporate governance report is published on the company's website - with reference to the report in the management commentary.

Refer to part 4; the comply or explain principle, which explains how a company should act if it has chosen to take different action than that recommended.

For use in companies' report, the Committee on Corporate Governance has drawn up a form, which companies may choose for their reporting. The form is available on www.corporategovernance.dk. By using the same reporting structure from year to year, investors and other stakeholders can more easily find process and compare information. On the committee's website, a number of frequently asked questions/answers and other guidelines can also be found.

6. Definitions

The management structures used by companies differ within the EU, and the same applies for legislation adopted by the different member states. Unitary and dual management structures are used, but they do not necessarily represent the same concept in all member states. The choice of management structure determines which body is responsible for a function or task.

Danish public limited companies are free to choose between two management structures. All the management models in the Companies Act share one common feature: the executive board of the company is in charge of the day-to-day management.

In addition, public limited companies must have either a board of directors or a supervisory board. If the company has a board of directors, the executive board will only be in charge of the day-to-day management, and the board of directors will be in charge of the overall and strategic management and will supervise the executive board. If the company has a supervisory board, such board will only supervise the executive board, as the executive board will be in charge of the entire management function, i.e. also the overall and strategic management.

In the view of the Committee, public limited companies with shares admitted to trading on a regulated market should have a board of directors and an executive board, as this structure provides constructive and value-creating interaction between the two governing bodies. Consequently, and in order to clarify and simplify the recommendations on corporate governance, the Committee has chosen to use the designations known so far for the governing bodies: board of directors and executive board.

The tasks of the board of directors are also described in legislation on financial statements and in company law. These recommendations should be seen in relation to these provisions and the articles of association of the company, rules of procedure, etc.

RECOMMENDATIONS ON CORPORATE GOVERNANCE

1. Communication and interaction by the company with its investors and other stakeholders

The company's investors, employees and other stakeholders have a joint interest in stimulating the Company's growth, and in the company always being in a position to adapt to changing demands, thus allowing the company to continue to be competitive and create value.

Therefore, it is essential to establish a positive interaction not merely between management and investors, but also in relation to other stakeholders.

Good corporate governance is also about establishing appropriate frameworks, which enable investors to enter into a dialogue with management of the company.

Openness and transparency are essential conditions for the company's investors and other stakeholders to have regular access to evaluate and relate to the company and its future, and thus engage in a constructive dialogue with the company.

The company's management ensures an appropriate and balanced development of the company in the short and long term.

1.1. Dialogue between company, shareholders and other stakeholders

1.1.1. **THE COMMITTEE RECOMMENDS** that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.

COMMENT: The company's dialogue with its shareholders may be summarised in an Investor Relations strategy on the type of information to be published, the language to be used, as well as how, when and to whom this should be published.

The insight of the board of directors into the dialogue may possibly be established through participation in investor meetings or reporting from such meetings, or through regular reporting from the executive board.

On behalf of the board of directors, the chairman should ensure good and constructive relations with the shareholders.

1.1.2. **THE COMMITTEE RECOMMENDS** that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.

COMMENT: The policies, which the board of directors of a company may adopt, could be a communication policy, a policy for the company's relationship with its investors and a tax policy.

1.1.3. **THE COMMITTEE RECOMMENDS** that the company publish quarterly reports.

COMMENT: Periodic notifications are not quarterly reports and are not regarded as fulfilling the recommendation. Regular information to the market concerning the company's situation generates openness and transparency in relation to investors and other stakeholders. Quarterly reports are an essential tool for ensuring this.

1.2. General meeting


1.2.1. **THE COMMITTEE RECOMMENDS** that, when organising the company's general meeting, the board of directors plans the meeting to support active ownership.

COMMENT: When organising the general meeting, it is important to ensure that the shareholders have an opportunity to participate, including voting without physical attendance, at the general meeting. Considerations should address holding the general meeting wholly or partly electronically. The shareholders will then be in a position to influence the management of the company on the development of the company in the short and long term.

1.2.2. **THE COMMITTEE RECOMMENDS** that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.

1.3. Takeover bids

1.3.1. **THE COMMITTEE RECOMMENDS** that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.

-  **COMMENT:** The board of directors should ensure that contingency procedures have been prepared in the event of takeover bids. Such contingency procedures aim at ensuring that the shareholders have a real opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered, and that the board of directors
- is informed about the formal conditions in the event of external enquiries,
 - has discussed who will assume which tasks, and the advisors to be consulted,
 - is ready for the challenges that may be associated with value creation in the company, cf. the comment on recommendation 2.1.2.

The board of directors will not be in conflict with the recommendations if it seeks alternative (competing) takeover bids in order to create value for its shareholders.

2. Tasks and responsibilities of the board of directors

It is incumbent upon the board of directors to carefully protect the interests of the shareholders with due consideration for the other stakeholders.

The board of directors is responsible for the overall and strategic management of the company to ensure value creation in the company. The board of directors must lay down the strategic goals of the company and ensure that the prerequisites necessary in order to reach such goals are present, in the form of financial resources and competences, and to ensure appropriate organisation of the activities of the company.

The prerequisite for meeting the company's strategic goals is that the board of directors employ a competent executive board, lays down the division of responsibilities between the board of directors and the executive board, the tasks and employment relationships of the executive board, and also establishes clear guidelines for accountability, planning, follow-up and risk management. The board of directors must supervise the executive board and lay down guidelines for the supervision.

The board of directors is responsible for ensuring the development, retention or dismissal of the executive board, as well as for ensuring that remuneration of the executive board reflects the long-term value creation in the company and the results otherwise achieved by the executive board.

The chairman of the board of directors organises, convenes and leads meetings of the board of directors to ensure efficiency in the board's work and to create the best possible working conditions for the members individually and collectively. This ensures that the individual member's special knowledge and skills are used in the best possible manner and to the benefit of the company.

In order for the board of directors to be able to meet its obligations, the chairman should cooperate with the other members of the board of directors on ensuring that members regularly receive updates, and expand their knowledge about matters relevant to the company, as well as ensure that the special knowledge and skills of each individual member are used in the best possible manner to the benefit of the company.

2.1. Overall tasks and responsibilities

2.1.1. THE COMMITTEE RECOMMENDS that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.

COMMENT: Through appropriate planning of the tasks of the board of directors, sufficient time should be available for the board to discuss the company's overall strategic goals and value creation. Setting up an annual plan - the "annual wheel"
- may contribute to ensuring appropriate processing of the tasks of the board of directors adapted to the activities and needs of the company. A review of the rules of procedure for the board of directors is also part of this plan.

2.1.2. THE COMMITTEE RECOMMENDS that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.

COMMENT: Strategy discussions should focus on implementation through a plan for value creation comparable to alternative scenarios. The results of these discussions may form the basis for further discussion on whether the company's strategy sufficiently responds to the company's short and long-term opportunities and challenges.

The ongoing strategy work should be planned such that the board of directors has a real possibility of influencing the company's strategic direction. This could be by involving the board of directors in the strategy work along the way.

2.1.3. THE COMMITTEE RECOMMENDS that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors presents this in the management commentary and/or on the company's website.

COMMENT: For the purpose of these recommendations, capital and share structures refer to the size of the share capital, the denomination, the number of share classes and the voting rights attached to the share classes, including restrictions on voting rights, the right to dividends, the distribution between equity financing and loan capital financing, treasury shares, share buy-backs, etc. The key element of this assessment is to ensure that the company is adequately capitalised and ensure adequate liquidity of the share and a reasonable distribution of risk and influence.

2.1.4. **THE COMMITTEE RECOMMENDS** that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board reporting to the board of directors.

COMMENT: Guidelines on the division of responsibilities between the board of directors and the executive board should lay down more detailed frameworks for the interaction, including e.g. investment rules and the division of responsibilities between members of the executive board. If the board of directors or the executive board has special requests for work procedures, approval of policies and powers, this should be included in the guidelines.

2.1.5. **THE COMMITTEE RECOMMENDS** that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.

2.2. Corporate social responsibility

2.2.1. **THE COMMITTEE RECOMMENDS** that the board of directors adopt policies on corporate social responsibility.

COMMENT: In this connection, the board of directors may take a position on the company's possible adoption of recognised national and international voluntary initiatives.

2.3. Chairman and vice-chairman of the board of directors

2.3.1. **THE COMMITTEE RECOMMENDS** appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.

COMMENT: The rules of procedure of the board of directors may include a general description of the tasks, duties and responsibilities of the chairman and the vice-chairman.

2.3.2. THE COMMITTEE RECOMMENDS ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration hereof should be announced.

COMMENT: A reasonable division of responsibilities should be ensured between the chairman, the vice-chairman, the other members of the board of directors and the executive board. An agreement regulating the chairman's or other board member's discharge of special tasks should contain provisions on the special precautions taken to protect the distribution of roles and responsibilities between the members of the board of directors and between the board of directors and the executive board.

3. Composition and organisation of the board of directors

The board of directors should be composed so that it is able to execute its strategic, managerial and supervisory tasks.

It is essential that the board of directors be composed so as to ensure effective performance of its tasks in a constructive and qualified dialogue with the executive board. It is also essential that the members of the board of directors always act independently of special interests.

The board of directors defines the skills required by the company and regularly assesses whether its composition and the skills of its members individually and collectively reflect the requirements of the company's situation and conditions.

Diversity improves the quality of the work and the interaction of the board of directors, e.g. through different approaches to the performance of management tasks.


To increase value creation, the board of directors should evaluate its members every year and ensure integration of new talent while maintaining continuity.

In addition to the members of the board of directors elected by the general meeting, the board of directors may comprise members elected by the employees pursuant to the regulations of the Companies Act.

3.1. Composition


- 3.1.1. **THE COMMITTEE RECOMMENDS** that the board of directors annually evaluates and, in the management commentary, accounts for
- the skills it must have to best perform its tasks,
 - the composition of the board of directors, and
 - the special skills of each member.

- 3.1.2. **THE COMMITTEE RECOMMENDS** that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, prepares, and adopts a policy on diversity. The policy should be published on the company website.

 **COMMENT:** Diversity includes age, international experience and gender. A policy on diversity should concern matters relevant to the company in relation to diversity, which promote a relevant degree of diversity, strengthen management's qualifications and competences and take into account the future development of the company.

- 3.1.3. **THE COMMITTEE RECOMMENDS** that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors, in addition to the need for competences and qualifications, should take into consideration the need for integration of new talent and diversity

- 3.1.4 **THE COMMITTEE RECOMMENDS** that the notice convening the general meeting when election of members to the board of directors is on the agenda be accompanied by a description of the nominated candidates' qualifications, including information about the candidates'
- other executive functions, among these memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises, and
 - demanding organisational tasks
- Furthermore, it should be indicated whether candidates to the board of directors are considered independent.

 **COMMENT:** The description may contain information about recruitment criteria established by the board of directors, including requirements for professional and personal qualifications, knowledge about the industry, diversity (e.g. age, international experience and gender), educational background, etc., which the board of directors considers to represent qualities paramount to the board of directors. The nomination to the general meeting on the composition of the board of directors should be drawn up against this background.

3.1.5. THE COMMITTEE RECOMMENDS that members of the company's executive board are not members of the board of directors and that a chief executive officer who is stepping down does not take up the position of chairman or vice chairman for the same company.

COMMENT: Proper division of labour as well as independence should be ensured between the board of directors and executive board, and similarly, it should be ensured that the new chief executive officer is able to act independently of the chief executive officer director.

3.1.6. THE COMMITTEE RECOMMENDS that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.

3.2. Independence of the board of directors

3.2.1. THE COMMITTEE RECOMMENDS that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.

To be considered independent, this person may not:

- be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,
- within the past five years, have received larger emoluments from the company/group, a subsidiary undertaking or an associate in another capacity than as member of the board of directors,
- represent or are associated with a controlling shareholder,
- within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate.
- be or within the past three years have been employed or partner in the same company as the external auditor elected by the general meeting,
- have been chief executive in a company holding cross-memberships with the company,
- have been member of the board of directors for more than 12 years, or
- have been close relatives with persons who are not considered independent.

Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that lead the board of directors to decide that one or more members cannot be regarded as independent.

COMMENT: The board of directors decides which members are considered independent persons. When applying the independence criteria, the board of directors should focus on substance rather than form.

Independence means that the person in question does not have close ties to or represents the executive board, the chairman of the board of directors, controlling shareholders or the company.

The fact that a member of the board of directors was elected by votes of the controlling shareholder does not in itself influence the assessment of that member's independence. Other factors determine the question of independence, including whether the person in question is member of the executive management of or has close ties to the company's controlling shareholder.

If the board of directors determines that several members of the board of directors are associated with shareholders with significant influence, the board of directors should consider whether its composition is sound in relation to independence. It is the opinion of the Committee that an indication of significant influence is when a shareholder holds more than 20% of the voting rights.

Cross-memberships of executive management are seen e.g. where a member of the board of directors in company A is a member of the executive board in company B, at the same time as a member of the board of directors in company B is a member of the executive board in company A. A similar situation may arise where a member of the board of directors has significant links with members of the executive board in the company through involvement in other companies or entities.

In the view of the Committee, employee representatives are not independent.


3.3. Members of the board of directors and the number of other executive functions

3.3.1. THE COMMITTEE RECOMMENDS that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.


COMMENT: A member of the board of directors who is also a member of the executive management of a company, should generally not take on more than a few non-executive directorships or one chairmanship and one non-executive directorship in companies not forming part of the group. This assessment should also consider the number and scope of committee posts and other positions of trust.

3.3.2. THE COMMITTEE RECOMMENDS that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:

- the position of the relevant person,
- the age and gender of the relevant person,
- the respective person's competences and qualifications that are relevant to the company,
- whether the member is considered independent,
- the date of appointment to the board of directors of the member,
- expiry of the current election period,
- the member's participation in the meetings of the board of directors and committee meetings,
- other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and
- the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.

 **COMMENT:** Participation in meetings of the board of directors and committee meetings promote a necessary and constructive debate, and information on member participation in such meetings is therefore relevant. Physical participation should be the norm, however participation via digital media is also regarded as participation.

3.3.3. THE COMMITTEE RECOMMENDS that the annual evaluation procedure, cf. section 3.5, includes an evaluation of what is regarded as a reasonable level for the number of other executive functions, where the number, level and complexity of the other individual executive functions are taken into account.

 **COMMENT:** Annually, the board of directors must carry out a specific and individual evaluation of what would be regarded as a reasonable level in the number of other executive functions – for the individual members. The evaluation of the other executive functions must include the individual function's magnitude and scope.

3.4. Board committees

Board committees may increase efficiency and improve the quality of the work performed by the board of directors. The board committees are committees established by the board of directors.

A board committee should be set up with the sole purpose of facilitating the transaction of business by the board of directors and must not cause significant

information required by all members of the board of directors only to be communicated to the board committee, or that the processing required in the board of directors be limited or omitted.

The board of directors remains fully responsible for all decisions prepared by a board committee.

The board of directors should consider whether the company is particularly exposed, or whether other matters might motivate setting up further permanent committees other than the audit, nomination and remuneration committees. This may help obtain better exploitation of the special competences of the board of directors. For example, this could be research and development or risk committees.


The board of directors may also set up ad hoc committees in connection with special tasks or issues of significant, though temporary nature. This may help ensure the required focus on the task in question as well as temporal prioritisation. Such issues could be CSR, ethical or image-related issues, large acquisitions or takeover bids. The recommendations do not include ad hoc committees.

3.4.1. THE COMMITTEE RECOMMENDS that the company publish the following on the company's website:

- the terms of reference of the board committees,
- the most important activities of the committees during the year, and the number of meetings held by each committee, and
- the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.

3.4.2. THE COMMITTEE RECOMMENDS that a majority of the members of a board committee be independent.

3.4.3. THE COMMITTEE RECOMMENDS that the members of the board of directors set up an audit committee and that a chairman of the committee is appointed who is not the chairman of the board of directors.

 **COMMENT:** The audit committee should only consist of members of the board of directors and not external parties, as these parties do not have the same insight into company matters and are not necessarily subject to the same responsibility as members of the board.

3.4.4. THE COMMITTEE RECOMMENDS that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:

- significant accounting policies,
- significant accounting estimates,
- related party transactions, and
- uncertainties and risks, including in relation to the outlook for the current year.

3.4.5. THE COMMITTEE RECOMMENDS that the audit committee:

- annually assesses the need for an internal audit, and in such case, makes mandates and recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function
- ensures that if an internal audit has been established, a description of its functions is available and approved by the board of directors
- ensures that if an internal audit has been established, that adequate resources and competences are allocated to carry out the work, and
- monitors the executive board's follow-up on the conclusions and recommendations of the internal audit function.



COMMENT: If a decision is made to establish an internal audit function, the board of directors may choose to outsource the task. The party in question will carry out the internal audit and refer to the board of directors or the audit committee.

3.4.6. THE COMMITTEE RECOMMENDS that the board of directors establish a nomination committee with at least the following preparatory tasks:

- describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,
- annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,
- annually assess the competences, knowledge, experience and succession of the individual members of management, and report to the board of directors in this respect,
- recommendation of candidates for the board of directors and the executive board, and
- propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.



COMMENT: When electing candidates for the board of directors, external assistance should be considered.

3.4.7. THE COMMITTEE RECOMMENDS that the board of directors establish a remuneration committee with at least the following preparatory tasks:

- to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,
- make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group
- recommend a remuneration policy applicable for the company in general and
- assist with the preparation of the annual remuneration report.

 **COMMENT:** Consider getting external assistance in the preparation of the incentive pay scheme.

3.4.8. THE COMMITTEE RECOMMENDS that the remuneration committee do not consult with the same external advisers as the executive board of the company.


3.5. Evaluation of the performance of the board of directors and the executive board

The evaluation process is to form the basis for continuous improvements in board work and is to ensure that the board of directors continues to have the right composition and regularly introduces new talent. Involving external assistance in the evaluation process may be considered periodically.

3.5.1. THE COMMITTEE RECOMMENDS that the board of directors establishes an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. Inter alia, the evaluation should include:

- Contribution and results,
- Cooperation with the executive board
- The chairman's leadership of the board of directors
- The composition of the board of directors (including competences, diversity and the number of members).
- The work in the committees and the committee structure
- The organisation and quality of the material that is submitted to the board of directors

The evaluation procedure and the general conclusions should be described in the management commentary and on the company website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions, at the General Meeting prior to the election to the board of directors.

 **COMMENT:** The evaluation of the individual member could be carried out as an assessment that is carried out by the other members and members of the executive board. The evaluation is followed by an annual interview between the chairman and the individual member. The evaluation of the chairman should be undertaken by a member other than the chairman, if no external assistance has been used.

To increase value creation, the board of directors should carry out an evaluation of its composition every year and ensure integration of new talent while maintaining continuity. This evaluation should form the basis for new initiatives to be launched, such as relevant supplementary training and new talent orreplacement.

This evaluation will also include participation by the individual members in board and committee meetings.

3.5.2. THE COMMITTEE RECOMMENDS that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.

3.5.3. THE COMMITTEE RECOMMENDS that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer and that the outcome of the evaluation be presented to the board of directors.

 **COMMENT:** This evaluation should be integrated into the overall evaluation by the board of directors.

4. Remuneration of management

Openness and transparency about all important issues regarding company policy on and amounts of the total remuneration offered to members of the governing bodies are essential. Company policy on remuneration should support a long-term value creation for the company.

Competitive remuneration is a prerequisite for attracting and retaining competent members of the management of the company. The company should have a remuneration policy, according to which the total remuneration package, i.e. the fixed and variable components and other remuneration components, as well as other significant employment terms, should be reasonable and reflect the governing body members' performance, responsibilities and value creation for the company.

The variable component of the remuneration (the incentive pay scheme) should be based on actual achievements over a period of time with a view to long-term value creation so as not to promote short-term and risky behaviour.

The board of directors should consider the need to include external consultants in relation to the preparation of the remuneration policy and in its implementation.

The information on management remuneration should be compiled in a remuneration report.

4.1. Form and content of the remuneration policy

4.1.1. THE COMMITTEE RECOMMENDS that the board of directors prepares a remuneration policy for the board of directors and the executive board, including

- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
- the reasons for choosing the individual components of the remuneration,
- a description of the criteria on which the balance between the individual components of the remuneration is based, and
- an explanation for the connection between the remuneration policy and the company's long-term value creation and relevant related goals.

The remuneration policy should be approved by the general meeting and published on the company's website at least every fourth year and upon any critical amendments.

COMMENT: The remuneration policy comprises fixed emoluments as well as incentive pay schemes. The remuneration policy, including the general guidelines for incentive-based remuneration laid down in section 139 of the Companies Act, is after approval by the general meeting only to be heard by the general meeting again, if the policy or the general guidelines adopted for incentive-based remuneration are subject to changes, however at least every fourth year.

4.1.2. THE COMMITTEE RECOMMENDS that, if the remuneration policy includes variable components,

- limits be set on the variable components of the total remuneration package,
- a reasonable and balanced linkage be ensured between remuneration for governing body members and the value creation for shareholders in the short and long terms,
- there be clarity about performance criteria and measurability for award of variable components,
- it is ensured that variable remuneration only consists of short and long term remuneration components, and that long-term components must have an earning and maturity period of at least three years, and
- ensures the opportunity for the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.

4.1.3. THE COMMITTEE RECOMMENDS that remuneration of members of the board of directors does not include share options.

COMMENT: If members of the board of directors are partly remunerated in the form of shares at market value, this does not contravene with these recommendations.

4.1.4. THE COMMITTEE RECOMMENDS that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have an earning and maturity period of at least three years after being allocated and should be roll over programmes, i.e. the options should be granted periodically.

COMMENT: An earning or maturity period of at least three years after allocation should ensure consistency between the share-based remuneration and the long-term value creation for the company. Apart from the earning period, there may also be a maturity period before payment.

4.1.5. THE COMMITTEE RECOMMENDS that the total value of the remuneration during the notice period, including severance pay, should not exceed two years of remuneration, including all components of the remuneration.

4.2. Disclosure of the remuneration

4.2.1. THE COMMITTEE RECOMMENDS that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.

COMMENT: If the total remuneration includes contributions to pension schemes, such payments and the actuarial value and changes of such schemes over the year, are considered to be covered by the disclosure on remuneration. Severance programmes cover a wide area, including period of notice and qualification, termination payment, change of control agreements, insurance and pension schemes, payment of pension contributions after retirement, etc.

4.2.2. THE COMMITTEE RECOMMENDS that shareholders take up proposals for approval of remuneration for the board of directors for the current financial year at the general meeting.

4.2.3. THE COMMITTEE RECOMMENDS that the company prepares a remuneration report that includes information on the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group and associates for the last three years, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage between the remuneration and company strategy and relevant related goals be explained.

The remuneration report should be published on the company website.

5. Financial reporting, risk management and audits

Each member of the board of directors and the executive board is responsible for preparing the annual report and other financial reports in accordance with current legislation, applicable standards and any further requirements concerning financial statements stipulated in the articles of association, etc.

The annual report and other financial reports should be supplemented by additional financial and non-financial information, if deemed necessary or relevant in relation to the information needs of the recipients.

The members of the board of directors and executive board must ensure that the financial reporting is easy to understand, balanced, and provides a true and fair view of the company's financial position, performance and cash flow. The management commentary must give a true and fair presentation of the state of affairs, including value creation and the outlook.

When considering and approving the annual report, the board of directors must decide whether the business is a going concern, including supporting assumptions or qualifications where necessary.


Effective risk management and an effective internal control system contribute to reducing strategic and business risks, to ensuring observance of current rules and regulations and to ensuring the quality of the basis for management decisions and financial reporting. It is essential that risks are identified and that risks are managed appropriately.

Effective risk management and internal control are a precondition for the board of directors and the executive board to perform efficiently the tasks bestowed upon them. Consequently, it is essential that the board of directors ensure effective risk management and effective internal controls.

An independent and competent audit is essential for the board's work.


5.1. Identification of risks and transparency about other relevant information

5.1.1. THE COMMITTEE RECOMMENDS that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.

 **COMMENT:** Information about the company's risk management in relation to strategic and business-related risks supplements the statutory account in the management commentary on the company's internal control and risk management systems in connection with the financial reporting process.

5.2. Whistleblower scheme

5.2.1. THE COMMITTEE RECOMMENDS that the board of directors establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.

 **COMMENT:** A whistleblower scheme should have its roots in the board of directors, possibly through the audit committee.

5.3. Contact to auditor

5.3.1. THE COMMITTEE RECOMMENDS that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor elected by the general meeting without the executive board present. This also applies to the internal auditor, if any.

5.3.2. THE COMMITTEE RECOMMENDS that the audit agreement and auditors' fee be agreed between the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.

Committee on Corporate Governance in perspective

The Committee on Corporate Governance should primarily but not exclusively

- participate in corporate governance networks in the EU and in international contexts,
- relate to implementation of EU recommendations, etc. where it is assumed that member states have national corporate governance bodies,
- monitor developments in corporate governance at national and international levels,
- hear/issue consultation statements in connection with relevant bills,
- strive for continuity in the work on corporate governance in Denmark,
- motivate companies with shares listed on the Danish regulated markets to have reasonable and appropriate conditions and terms to adapt to the recommendations applicable on corporate governance at all times,
- collect views and experience from companies arising from their work on the recommendations,
- launch and support empirical studies in the field of corporate governance,
- at appropriate intervals and after prior relevant consultation, adapt the Danish recommendations on corporate governance with a view to ensuring that the recommendations, from an overall assessment, for Danish listed companies and in conformity with Danish and EU company legislation, continue to be appropriate and recognised best practice, and
- Disseminate and ensure compliance with the Recommendations for active Ownership.

The Committee's members are appointed for a period of two years. Members may be re-appointed for another three periods.

In the terms of reference of 2 March 2001, Lars Nørby Johansen, Jørgen Lindegaard, Waldemar Schmidt and Mads Øvlisen were asked to assess the need for recommendations on corporate governance in Denmark, and to make proposals for this. In the same year, the first recommendations on corporate governance were published.

At publication of these recommendations, the Committee comprises Lars Frederiksen (chairman), Jens Due Olsen (vice-chairman), Rikke Schiøtt Petersen, Laila Mortensen, Per Gunslev, Ole Andersen, Karen Frøsig, Nikolaj Kosakewitsch, Britt Meelby Jensen, Christian Hyldahl and Eric Christian Pedersen.

Since 2001, 33 persons have participated in the work on the recommendations. Other than the above mentioned persons, these are Bodil Nyboe Andersen, Ingelise Bogason, Hans-Ole Jochumsen, Finn Meyer, Peter Ravn, Lars Rohde, Carsten Stendevad, Sten Scheibye, Henrik Stenbjerre, Birgit Aagaard-Svendsen, Marianne Philip, Henrik Brandt, Thomas Hofman-Bang, Stig Enevoldsen, Dorrit Vanglo, Bjørn Sibbern, Jørn P. Jensen og Vagn Sørensen.

These recommendations have been updated eight times: in 2005, twice in 2008, in 2010, in 2011, in 2013, in 2014 and, most recently, in 2017.

