



# Report on Corporate Governance in Denmark

– the Copenhagen Stock Exchange Committee on Corporate Governance

December 2003

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every receipt, invoice, and bill should be properly filed and indexed for easy retrieval. This not only helps in tracking expenses but also ensures compliance with tax regulations.

Next, the document outlines the various methods for recording financial data. It compares traditional paper-based ledgers with modern digital accounting software. While paper ledgers are still used in some small businesses, digital solutions offer greater efficiency and security. The text highlights the benefits of cloud-based accounting, such as real-time data access and automatic backups.

The document also addresses the issue of budgeting and financial forecasting. It provides a step-by-step guide on how to create a realistic budget based on historical data and market trends. Key factors to consider include fixed costs, variable costs, and potential revenue streams. Regularly reviewing and adjusting the budget is essential for staying on track.

Furthermore, the document discusses the importance of maintaining a healthy cash flow. It offers strategies for managing receivables and payables, such as offering early payment discounts and negotiating favorable terms with suppliers. The text also touches upon the risks of over-investing in inventory and the need for a contingency fund.

In conclusion, the document stresses that effective financial management is the cornerstone of a successful business. By implementing the principles and practices outlined here, business owners can gain better control over their finances and position their companies for long-term growth and stability.

# Contents

<b>Foreword</b>	<b>2</b>
<b>1 Introduction</b>	<b>3</b>
<b>2 Copenhagen Stock Exchange Committee on Corporate Governance</b>	<b>4</b>
2.1 Terms of reference for the Copenhagen Stock Exchange Committee on Corporate Governance	4
2.2 This report takes stock of the work of the Copenhagen Stock Exchange Committee on Corporate Governance	5
<b>3 Experience of corporate governance in Denmark</b>	<b>6</b>
3.1 Reception of and reaction to the Nørby Committee's recommendations	6
3.2 Questionnaire study conducted by the Copenhagen Stock Exchange Committee on Corporate Governance	7
3.3 Companies' opinion on corporate governance in the annual reports	9
3.4 Other consequences of the Nørby Committee's report	11
3.5 Summary	12
<b>4 International corporate governance initiatives</b>	<b>13</b>
4.1 US initiatives	13
4.2 EU initiatives	13
4.3 National initiatives abroad	14
4.4 Summary	15
<b>5 The need for a revision of the Nørby Committee's recommendations</b>	<b>16</b>
<b>6 Considerations for future work in the light of the past development in this area</b>	<b>19</b>
<b>7 Proposal for revised recommendations</b>	<b>20</b>
<b>Appendix 1</b>	<b>26</b>
<b>Appendix 2</b>	<b>36</b>

## Foreword

This report has been prepared by the Copenhagen Stock Exchange Committee on Corporate Governance (the Committee) on the basis of the work on corporate governance undertaken by the Committee since its appointment in November 2002.

The Committee invites stakeholders to comment on the subjects mentioned in section 5 of the report and on the proposal for revised recommendations presented by the Committee in section 7 of the report. Appendix 1 gives an outline of the Committee's proposal for a revision of the existing recommendations.

The comments received by the Committee will form part of the continued work on corporate governance in Denmark.

The Committee must receive the comments by 1 April 2004 by e-mail to [corporategovernance@cse.dk](mailto:corporategovernance@cse.dk) or by letter to the Copenhagen Stock Exchange, Nikolaj Plads 6, Postboks 1040, DK-1007 Copenhagen K, if the comments are to be taken into consideration.

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The debate on corporate governance has been going on for a number of years in the majority of countries in the western world. However, the debate has heated up in recent years, one reason being the collapse of American and other international companies.

In Denmark, the debate on corporate governance really gathered momentum following the publication of *The Nørby Committee's Report on Corporate Governance in Denmark – Recommendations for Corporate Governance in Denmark* in December 2001. This meant that Denmark joined the large group of countries with a voluntary (i.e. not legally binding) code of conduct for what may be regarded as corporate governance.

Prior to the publication of the Nørby Committee's report, the extensive international debate on corporate governance had caused organisations, stock exchanges, etc., in a number of countries to adopt codes of conduct. After the publication of the report, focus on control, transparency and independence increased.

The Nørby Committee was appointed in March 2001 by the then minister for economic and business affairs on account of the government's wish to strengthen the board culture in Danish companies as stated in the then government's business strategy known as *.dk21*. The initiative behind the Danish code of conduct was seized due to the government's visions for risk-taking Denmark and not in response to corporate scandals.

Members of the committee were Lars Nørby Johansen (chairman), Jørgen Lindegaard, Waldemar Schmidt and Mads Øvlisen. The committee was asked to assess whether there was a need for recommendations for corporate governance in Denmark and, if so, to present a proposal for such recommendations. The report on corporate governance in Denmark was the result of the committee's work.

The Copenhagen Stock Exchange incorporated the Nørby Committee's recommendations in its disclosure requirements for listed companies immediately after the publication of the report.

Hence, the Copenhagen Stock Exchange recommends listed companies to address the Nørby Committee's recommendations for corporate governance in their annual reports.

In order to ensure a continuation of the work carried out and the debate on corporate governance, the Copenhagen Stock Exchange appointed an independent corporate governance committee in November 2002 to work towards facilitating the development of corporate governance in listed Danish companies.

## 2 Copenhagen Stock Exchange Committee on corporate governance

At the request of the then ministry of economic and business affairs, the Nørby Committee considered what incentives might contribute most to compliance with corporate governance by supervisory and executive boards in Danish companies.

The Nørby Committee established that subsequent embedding and update of the recommendations for corporate governance were important as the recommendations were not a static tool, but a tool that should be continuously adapted to the current situation.

The Nørby Committee therefore encouraged the supervisory board of the Copenhagen Stock Exchange to consider how it could contribute to making the recommendations pave the way for corporate governance in listed Danish companies. The Nørby Committee also proposed that regular assessments and revisions (when needed) be made of the contents of the recommendations.

At the publication of the Nørby Committee's recommendations, the Copenhagen Stock Exchange was, and still is, of the opinion that corporate governance in listed companies is very important also to the Copenhagen Stock Exchange and that the stance on corporate governance of the management of a listed company should be known by the general public.

Hence, the Copenhagen Stock Exchange supported the work initiated by the appointment of the Nørby Committee and aiming at establishing a common frame of reference for corporate governance in Denmark. The committee's recommendations could serve as inspiration when companies address corporate governance.

It seemed natural for the Copenhagen Stock Exchange to continue the Nørby Committee's work and embed the work on corporate governance by appointing a committee on corporate governance.

The Committee was composed so as to include a broader group of people than the Nørby Committee. Furthermore, ensuring the continuity of the Nørby Committee was important. The following persons are members of the Copenhagen Stock Exchange Committee on Corporate Governance:

Lars Nørby Johansen (chairman)  
President and CEO of Group 4 Falck A/S

Mads Øvlisen  
Chairman of the supervisory board of Novo Nordisk A/S

Sten Scheibye  
CEO of Coloplast A/S

Peter L. Ravn  
CEO of SimCorp A/S

Finn L. Meyer  
State-authorised public accountant and senior partner of KPMG

Henrik Stenbjerre  
Attorney and partner of Kromann Reumert

Lars Rohde  
CEO of ATP

This composition made it possible to combine views of, experience gathered by and knowledge of companies, investors, auditors and advisers.

### 2.1 Terms of reference for the Copenhagen Stock Exchange Committee on Corporate Governance

The Copenhagen Stock Exchange Committee on Corporate Governance was appointed to ensure the continued development of a management culture and management structures in listed companies. The composition of the Committee was essential – not least in the light that the recommendations for corporate governance should not be a static frame of reference, but should be continuously adapted to the current situation.

The Copenhagen Stock Exchange's supervisory board charged the Committee with monitoring the development of corporate governance in the interaction between company managements, shareholders, investors and other stakeholders.

On the basis of the framework laid down in the Nørby Committee's report, including its recommendations for corporate governance that the Copenhagen Stock Exchange recommends listed companies to address in their annual reports, the Committee was also charged with:

- monitoring the development of the requirements generally governing corporate governance;
- collecting the companies' views and experience existing in relation to their work on the recommendations; and
- assessing the need for revising the Nørby Committee's recommendations for corporate governance.

Furthermore, the terms of reference also stipulated that the continued existence of the Committee, its tasks and composition should be reviewed again in late 2003.

The Committee based its work on the Nørby Committee's definition of the concept of corporate governance. According to the definition, corporate governance is defined as:

The goals according to which a company is managed and the general principles and framework regulating the interaction between the company's managerial bodies, the owners as well as other parties directly influenced by the company's transactions and business (in this context jointly referred to as the company's stakeholders). Stakeholders also include employees, creditors, suppliers, customers and the local community.

## 2.2 This report takes stock of the work of the Copenhagen Stock Exchange Committee on Corporate Governance

Thanks to the terms of reference and the fact that the Committee was appointed by the Copenhagen Stock Exchange, the Committee has been able to concentrate its work on the development of corporate governance in listed companies.

The Nørby Committee's report served as the foundation for the work undertaken by the Copenhagen Stock Exchange Committee on Corporate Governance.

Thus, the Committee's task was not to draw up an entirely new set of recommendations, but rather to revise and build on the existing recommendations of the Nørby Committee's report.

The work of the Committee is to ensure that the existing recommendations are up-to-date, effective and in keeping with both national and international trends.

The Committee regarded its task as being divided into a national and an international part, which together provide the foundation for assessing the need for revising the Nørby Committee's recommendations for corporate governance.

On the national scale, the Committee collected companies' views on and experience of the recommendations.

The Committee conducted a questionnaire study among listed companies to obtain as much information as possible about the companies' views on and experience of the recommendations. As investors' views on corporate governance are also of significance to the implementation of corporate governance in companies, the Committee also conducted a questionnaire study among a select group of investors – major shareholders in companies listed on the Copenhagen Stock Exchange.

In this report, the Committee, above all, sheds light on the development of corporate governance in Denmark since the publication of the Nørby Committee's recommendations and on their effect in the eyes of the Committee. Moreover, on the basis of the companies' annual reports and other published information, this report

also takes stock of how companies have responded to the recommendations and how they have addressed corporate governance.

On the international scale, a number of ongoing changes can be seen in the individual countries' national codes of conduct as well as amendments to national legislation governing areas of importance to corporate governance.

Much has happened since the publication of the Nørby Committee's report within the EU in direct relation to corporate governance. Most important is the European Commission's action plan of May 2003 to modernise company law and enhance corporate governance in Europe.

This report outlines the primary trends in the general debate at the international level and the development of the most important foreign codes of conduct since the publication of the Nørby Committee's report. The main lines of action within the EU are also outlined.

The Committee has assessed the need for revising the Nørby Committee's recommendations for corporate governance against the background of a total assessment of factors that each in their own way influences the opinion on corporate governance in Denmark.

The Committee members' own experience and knowledge have also been a material element in the assessment of the need for revising the recommendations.

In its report, the Committee points out a number of areas where it believes there may be a need for revision or elaboration of the existing recommendations and how this could take place. The Committee also points out a number of areas where it has discussed the need for change, but where the Committee has not made any proposal. In section 7, the Committee presents its proposal for revised recommendations.

The Committee is an independent committee appointed by the supervisory board of the Copenhagen Stock Exchange. Its members exclusively represent themselves and their own opinions. None of the members represent an organisation, a trade association or other.

## 3 Experience of corporate governance in Denmark

Corporate governance has a broader aim than shareholder value, i.e. the question about whether the management is actually striving to optimise shareholder interests. Hence, corporate governance deals with the goals according to which a company is managed and the general principles and framework regulating the interaction between the company's managerial bodies, the owners as well as other stakeholders.

The preparation and publication of the Nørby Committee's report meant that Denmark – like a number of other countries – introduced a voluntary set of recommendations for corporate governance. The report paved the way for a systematic framework for the debate on corporate governance and the contents of the concept instead of a sporadic discussion about subjects related to corporate governance.

It was interesting to see after the publication of the Nørby Committee's report how the recommendations were received by the surrounding world, including companies, investors and other stakeholders. The question was whether the stakeholders in general would adopt the recommendations as a common frame of reference and how the individual companies would respond to it.

### 3.1 Reception of and reaction to the Nørby Committee's recommendations

The Nørby Committee published its report on 6 December 2001. On the same day, the Copenhagen Stock Exchange announced that it would incorporate the recommendations in its disclosure requirements for issuers of shares listed on the Copenhagen Stock Exchange. This means that the Copenhagen Stock Exchange now recommends listed companies to address corporate governance in their annual reports as expressed in the Nørby Committee's recommendations.

The recommendations for corporate governance came into existence as non-binding recommendations – i.e. soft law – as was the case in the far majority of other countries with similar rules on corporate governance. From the outset, there were objections to this kind of "indirect legislation" as some parties called it. It was thus claimed that there was a risk that the non-binding recommendations over time would be converted into legislation or automatically be given binding effect through the courts' application of law.

The Nørby Committee was aware of this problem and believed that the purpose of the recommendations – establishment of corporate governance through voluntariness and flexibility – must be the decisive argument in favour of the recommendations maintaining their non-binding nature.<sup>1</sup>

<sup>1</sup> Stated on page 45 in the Nørby Committee's report, where the application of soft law is also described.

The incorporation of the recommendations in the Copenhagen Stock Exchange's disclosure requirements does not mean that the binding effect of the recommendations is any greater. The Copenhagen Stock Exchange *recommends* companies to *address* corporate governance as reflected in the recommendations. This may include the different ways in which the companies are organised.

The Copenhagen Stock Exchange's recommendation is based on expectations of a valid rationale behind each company's way to arrange its management, and this must be a reasonable assumption for listed companies. It is this rationale that it is relevant to highlight in the company's communication with the market. This allows the individual investor to decide whether the investor is confident that the management of the individual company has organised the company and arranged the management in an expedient manner.

What is essential is that the relevant aspects of the company are transparent.

Some quarters criticised the Nørby Committee's recommendations for being too specific and too rigorous.

The Nørby Committee indicated that it considered it to be of utmost importance that the recommendations were operational to create a practical tool as a basis for discussions about corporate governance. Hence, the committee would help stimulate the processes in the companies consisting of serious work on and decision-making regarding questions related to corporate governance.

The Nørby Committee also intended to make the recommendations flexible so as to give the individual companies a real opportunity to apply the recommendations as a tool. This flexible approach is a must as what can be said to be corporate governance for a specific company differs in many areas from company to company.

In the opinion of the Nørby Committee, the combination of the degree of specification, the flexible nature and the voluntariness of the recommendations should lay the foundation for a dialogue and fruitful discussions in the companies.

As the use of the recommendations is voluntary, it is up to each company to determine the extent to which it will follow them. In this way, the difference between supervisory boards and between companies is respected. In the end, it is left to the market to assess which companies observe what is deemed corporate governance by the market.

The Nørby Committee found that the market is the best judge of that. However, if the market is to assess these matters, the companies' stance must be transparent.

### 3.2 Questionnaire study conducted by the Copenhagen Stock Exchange Committee on Corporate Governance

#### *Background to the study*

Collecting experience and views among managements in listed companies was an important element in the Committee's work. This is an important contribution to the assessment of the effects of the Nørby Committee's recommendations and thus also of the need for any revision of the recommendations.

Since the publication of the recommendations, many different views of and different experience gained by company managements, investors and other stakeholders have regularly been expressed in the media, at conferences and otherwise. Thanks to a questionnaire study conducted among listed companies, the Committee gained a structured idea of company managements' views and experience.

Moreover, investors' views on corporate governance, the recommendations and companies' work on the recommendations are of importance to the Committee's work. Therefore, the Committee also conducted a questionnaire study among a group of major shareholders in the listed companies.

#### *Completion of the study*

The questionnaire study was conducted between January and April 2003, i.e. at a time when annual reports were being drawn up or had just been published.<sup>2</sup>

Since corporate governance is an issue requiring commitment on the part of both the supervisory board and the executive board, the questionnaire was answered by both the individual company's chairman of the supervisory board and its CEO. The purpose was

also to establish whether corporate governance is regarded differently by the two groups.

The managements of the companies and major shareholders were asked about their general view on corporate governance and how the work on corporate governance had in fact been undertaken. They were also asked about their opinions on each of the 31 recommendations.

The high response rate of the questionnaire study is a clear sign of the focus among companies and major shareholders on corporate governance. Hence, about 60 per cent of the chairmen of the supervisory boards responded as did some 70 per cent of the CEOs. A small group of those who did not answer the questions sent other written statements of opinion to the Committee. These statements also contributed to the Committee's overall knowledge of company views.

Among major shareholders, 92 per cent of the relatively small group of respondents completed the questionnaire.

#### *Results of the study*

Company managements generally held a positive view on the recommendations for corporate governance and the actual work on the recommendations. Thus, the general opinion among managements and major shareholders was that corporate governance helps increase the confidence in and the reliability of a company and its management, and that it is relevant that company managements address corporate governance. The major shareholders were also of the opinion that the companies' work on corporate governance makes them more attractive as an investment object.

Table 1 shows the opinion balance<sup>3</sup> for the answers to the general questions for each of the three groups of respondents.

Table 1	CEOs	Chairmen of supervisory boards	Major shareholders
<i>The company's work on corporate governance ...</i>			
... increases the confidence in and the reliability of the company and its management	84	97	95
... raises the insight into management principles and processes	58	72	82
... contributes to improving company competitiveness	3	13	36
... creates added value for shareholders	47	56	73
... helps attract investors / makes the company more attractive as an investment object	63	81	91
... contributes to better planning of company strategy	16	26	45
... improves the company's international standing	49	62	91
... shifts focus from other important aspects in the company	-21	-37	-32

<sup>2</sup> The results of the study are available at [www.corporategovernance.dk](http://www.corporategovernance.dk).

<sup>3</sup> The opinion balance value weights the percentage ratio of respondents agreeing to respondents disagreeing about a given question. The value is calculated by deducting the percentage number of negative answers from the percentage number of positive answers. The calculation ignores neutral answers. The result is stated as a figure between minus 100 and 100 and specifies the ratio of respondents agreeing to respondents disagreeing. The result will thus be 0 if the number of positive answers equals the number of negative answers.

The table shows that the respondents agreed most about the statement that corporate governance increases the confidence in and the reliability of the company and its management. The respondents were most sceptical about whether the work on corporate governance contributes to improving company competitiveness.

The major shareholders were of the opinion that corporate governance raises the insight into management principles and processes, while the CEOs were not quite of the same of opinion. In general, the major shareholders seemed to be more positive than company managements.

The Nørby Committee saw it as one of its most important tasks to create a common frame of reference for the opinion on corporate governance. In the questionnaire study, company managements confirmed that this had been achieved, and the major shareholders regarded it as positive.

As mentioned earlier, the recommendations were criticised for being too specific. Nevertheless, the study revealed that the majority of respondents actually considered the operational and specific nature of the recommendations to be expedient.

The Committee asked about the relevance of the specific contents of the recommendations. Both company managements and major

shareholders agreed that the seven main areas of the recommendations were relevant to the work on corporate governance. However, they did not agree to the same extent about the adequacy of the main areas for the work on corporate governance. This may reflect the numerous ways in which companies are organised and the fact that they cannot all be lumped together; one set of recommendations cannot take into consideration all the problems associated with corporate governance that may arise in the individual companies. And this was not the intention of the Nørby Committee.

Overall, the respondents agreed about the contents of the Nørby Committee's 31 recommendations. The different ways in which Danish companies are organised mean that they agree about the individual recommendations to different degrees.

The questionnaire study demonstrated that company managements and major shareholders find it important that the recommendations for corporate governance are voluntary recommendations, and so the legislature should not be the party laying down the framework for corporate governance. The conclusion is in perfect harmony with the opinion of the Nørby Committee and the Copenhagen Stock Exchange Committee on Corporate Governance. The opinion balance for the two questions appears from table 2, and it can be seen that voluntariness is considered more important by the company managements.

**Table 2**

	Chairmen of supervisory boards	Major shareholders
It is expedient that the recommendations for corporate governance in Denmark are voluntary recommendations	92	86
It should be left with the legislature to lay down the framework for corporate governance	-84	-50

There were no noticeable differences between the answers given by the chairmen of the supervisory boards and the answers given by the CEOs. In general, the two groups thus held the same opinion on corporate governance.

According to the study, major shareholders make use of a company's description of corporate governance in its annual report when assessing the company's management. The major shareholders found that the statements on corporate governance by the listed companies were not quite satisfactory.

The study contributed significantly to increasing the Committee's knowledge about how the chairmen of the supervisory boards and CEOs of listed companies as well as major shareholders assess corporate governance in general and how the work on corporate governance is undertaken in the companies. The questionnaire study gave the impression that the recommendations served as excellent inspiration to the companies in their work on corporate governance and that the recommendations had led to the debate in the individual companies intended by the Nørby Committee.

### 3.3 Companies' opinion on corporate governance in the annual reports

The Copenhagen Stock Exchange recommends companies to address the Nørby Committee's recommendations for corporate governance in their annual reports.

Hence, companies' annual reports and stock exchange announcements about corporate governance constituted an important source to the Committee's collection of information from companies about their opinions and work on corporate governance.

The Committee has systematically collected the statements on corporate governance published by the companies.<sup>4</sup>

The way in which companies express their views on corporate governance and its structure reflects a different opinion on and approach to the issue. What the companies say in their annual reports does not necessarily reflect the quality or the quantity of the individual company management's underlying work on corporate governance.

The statements published by company managements can be analysed in different ways. The Committee has not seen it as its task to analyse the quality of the individual statement or the work undertaken by the individual company management.

<sup>4</sup> If a company issued a statement on corporate governance in its annual report or another announcement published through the Copenhagen Stock Exchange under a heading or by mentioning corporate governance or a similar concept, these have been collected.

#### Extract from the Copenhagen Stock Exchange's recommendation

"The Copenhagen Stock Exchange encourages companies to address the recommendations in their annual reports. They may do so by, for instance, inserting a separate section thereon in the annual report. Such a section may be a summary or contain an indication of the extent to which the company follows the recommendations and a statement on the reason for any use of other principles or for deviations. Another possibility is that companies – preferably on the basis of the seven main areas of the recommendations – provide relevant information in another way about their corporate governance principles in the annual report."

Disclosure requirements for issuers of shares listed on the Copenhagen Stock Exchange (rule 36).

The Copenhagen Stock Exchange's recommendation is intended for annual reports published for financial years having commenced on 1 January 2002 or later. The effect of the recommendation will thus be visible in annual reports published in the spring of 2003 or to be published in future.

However, a number of companies published their opinions on corporate governance through the Copenhagen Stock Exchange as early as 2002 – also immediately after the publication of the Nørby Committee's report. In total, 31 per cent of the companies listed on the Copenhagen Stock Exchange commented on corporate governance in their annual reports or other announcements published through the Copenhagen Stock Exchange in 2002.

One hundred and twenty-seven companies, or 72 per cent of the companies at present having published annual reports since 1 January 2003, have addressed corporate governance in their annual reports or other stock exchange announcements. Largely all companies included in the KFX Index have addressed corporate governance, but the percentage is 91 per cent for MidCap+ companies and 79 per cent for SmallCap+ companies.

A company's published opinion on corporate governance may only be a brief statement that the company finds that the most important recommendations of the Nørby Committee's report are followed by the management of the company or merely that the company's management holds a positive view on the Nørby Committee's initiative. A few companies stated that they were highly aware of corporate governance – both before and after the publication of the Nørby Committee's report. Some 21 per cent of the companies opted for this way to express their views on corporate governance.

Other companies provided a detailed (some a very detailed) description of their management structures and views on the recommendations of the Nørby Committee and foreign codes of conduct, if any.

A few companies published documents outlining their overall guidelines for corporate governance.

A large proportion of these more extensive statements on corporate governance included the individual company's view on corporate governance based on the seven main areas outlined in the Nørby Committee's report. This approach was adopted by around 37 per cent of the 127 companies. The number of pages allocated for this purpose ranged from half a page to 19 pages.

A number of companies addressed all 31 recommendations and used them as a checklist.

In cases where a company addressed corporate governance on a large number of pages, the company typically did so in a stock exchange announcement instead of the annual report.

Forty-two per cent of the companies addressed corporate governance differently and did not address each of the seven main areas, but still in a way so that the individual company – at least quantitatively – elaborated on issues of importance to the company.

A few companies stated that they had made a sweeping revision of their articles of association in the light of the corporate governance principles. However, the far majority only introduced small revisions triggered by the recommendations.

The Committee's review of statements made by the companies on corporate governance shows that the Nørby Committee's report and recommendations have set the direction for the debate on corporate governance in the companies and for their statements.

All the companies addressing corporate governance in one way or the other referred to the Nørby Committee's report or addressed one or more of the recommendations presented in the Nørby Committee's report.

Several companies stated that they studied all the Nørby Committee's recommendations, but did not publish their views on all recommendations.

A number of the companies stated that their websites contain information on their approach to corporate governance, including the Nørby Committee's recommendations, or that their websites contain a more detailed description of their approach to corporate governance than the one given in their annual reports.

A quick glance at a few of these statements on corporate governance published on the companies' websites shows that they are rather extensive. One reason is that a number of these documents contain detailed comments on each recommendation from the Nørby Committee. It can be argued that such detailed information on a company's approach to corporate governance, including any of the 31 recommendations, is not suitable for publication in the relevant company's annual report.

For most companies, this exercise was the first time that they addressed corporate governance under a specific heading. The Committee believes that each company will assess the right level for the company on an ongoing basis.

When companies address corporate governance in their next annual reports, they are expected to follow up the intentions previously made for corporate governance. The individual companies are likely to set a suitable level for their statements on corporate governance in their annual reports. This will be a level that satisfies investors and explains the companies' approach to corporate governance to their stakeholders. All matters of material interest to investors should be included in the annual report.

### 3.4 Other consequences of the Nørby Committee's report

Since the release of the Nørby Committee's report, a number of conferences and seminars on corporate governance have been held under various auspices and with many initiators. They include law firms, the press, unit trusts, auditing firms, organisations and industrial associations. Furthermore, several industrial sectors have also addressed corporate governance. The conferences have dealt with the issue from a variety of approaches.

First of all, the Nørby Committee's recommendations are intended for listed companies and companies aiming for a stock exchange listing. Yet, in its report, the Nørby Committee points out that the report's recommendations will – hopefully – inspire other companies, including companies owned by the state and by foundations.

For public corporations, examples show that they have felt induced to address the areas of the Nørby Committee's recommendations that seem to be relevant.

Focus on the work on corporate governance in the public sector has – inspired by the Nørby Committee's report – also led to the establishment of a *Forum for Public Senior Management*; generally, this forum looks at the role of the senior executive as the manager of a public, politically run organisation (also known as public governance).

In connection with its participation in operating corporate enterprises and undertakings of a form similar to a corporate form, the Danish government contemplated the way in which it handled the ownership of and the managerial responsibility for such entities. Against this background, a committee was set up in 2001 with participation from the Ministry of Finance, the Ministry of Justice, the Prime Minister's Office, the Ministry of Transport and the Ministry of Economic and Business Affairs for the purpose of clarifying and assessing the problems and, if possible, proposing amendments to rules and practice and, in this connection, pointing out any confusion in the rule base.

In September 2003, this committee published a report entitled *State-Owned Companies – Supervision, Responsibility and Control*. The report gives an extensive description of the problems and contains a number of the committee's recommendations. In addition, the report refers to a task force set up with participation from the Ministry of Finance, the Ministry of Transport and the Ministry of Economic and Business Affairs to make recommendations for the exercise of ownership and corporate governance in state-owned companies. The results of this task force's work are likely to be made public before long.

The Danish government has taken the initiative in drawing up guidelines for good managerial practice in professional sports clubs in order to strengthen the conditions prevailing in the sports industry for development and professionalisation.

This concept is also becoming popular at the universities in the light of new university legislation. The Minister for Science, Technology and Innovation has thus set up a committee – *Governing Bodies of Universities in Denmark* – to make recommendations for the universities' new governing bodies.

Since the release of the Nørby Committee's report, focus on this issue has also increased in scientific literature and academic circles in Denmark. The universities and business schools thus boast a number of teachers specialising in corporate governance. They teach corporate governance from a variety of approaches, and the Nørby Committee's report is part of the syllabus of several subjects of study at universities and business schools.

Moreover, the different media publish "charts" of companies pursuing a strategy of corporate governance. Executives and companies are rated on the basis of a number of selected evaluation criteria. Finally, corporate governance awards are granted on the basis of fixed evaluation criteria, of which the Nørby Committee's recommendations form part.

### 3.5 Summary

Since its publication, the Nørby Committee's report has set the direction for the debate on corporate governance in Denmark. This debate has been broad and has involved company managements, investors, organisations, academics, political circles and others and has rubbed off on the debate on managerial form.

The report has been the pivotal or a contributory factor in causing individual companies or individuals in the business community to have an opinion on corporate governance in general.

The Nørby Committee's report has also had an impact outside Denmark. It has come to the knowledge of the Copenhagen Stock Exchange Committee on Corporate Governance that certain countries – when drawing up codes of conduct – have found inspiration in the Nørby Committee's report's form and recommendations.

According to the Committee, the report is generally accepted as a frame of reference for the contents of the concept of corporate governance in Denmark and for the debate on this issue.

## 4 International corporate governance initiatives in Denmark

The Nørby Committee's report took stock of the international development of corporate governance and its trends. This development has continued unabated since then.

The aim of the following subsections is to give a brief account of key international trends in the period following the publication of the Nørby Committee's report.

### 4.1 US initiatives

The key driving forces behind the development of corporate governance in both the USA and in Europe in the past couple of years have been the reactions to the collapse of Enron, a large US energy conglomerate, and the subsequent corporate and accounting scandals, including the World-Com scandal.

For one thing, these events brought about a demand in the USA for tighter internal control and reporting in companies, more transparency in relation to managerial matters in companies, including remuneration, a demand for more accounting information and increased quality, a demand for the establishment of independent audit committees as well as increased supervision of auditors. To a large extent, these demands were fuelled by a wish to restore confidence in the stock market and its players.

The first reaction to these demands was a 10-item action plan presented by the US President, followed by the much publicised Sarbanes-Oxley Act in the summer of 2002. The *Sarbanes-Oxley Act* is a framework act containing a number of principles and standards supplemented by detailed rules fixed by the SEC, the US Securities and Exchange Commission. The act stipulates that audit committees shall comprise only persons who are independent, and the SEC has adopted specific rules to determine such independency.

Other US organisations also took a number of other initiatives. Among them, the New York Stock Exchange and NASDAQ proposed or implemented initiatives on corporate governance issues, including independence for members of supervisory boards and supervisory board committees.

The aforementioned focus on the companies' problems also resulted in initiatives of a more "private" nature such as the *Principles of Corporate Governance* (May 2002), adopted and published by the Business Roundtable, and the reports on corporate governance from the American Law Institute.

### 4.2 EU initiatives

In 2001, the European Commission set up a task force, *The High Level Group of Company Law Experts*, which, in connection with the Council meeting in Oviedo in April 2002, was asked to assess the need for initiatives in the light of the development in the USA in this area. On 4 November 2002, the task force released a report entitled *A Modern Regulatory Framework for Company Law in Europe* containing a number of recommendations to the European Commission with the aim of strengthening corporate governance of European companies.

On 21 May 2003, the European Commission published an action plan to modernise company law and to enhance corporate governance in Europe; this action plan is widely based on the recommendations made by the task force.<sup>5</sup>

This plan includes specific proposals to improve the legal framework for corporate activity for the purpose of establishing competitive and efficient companies in the EU. One of the key tools in this connection is a strengthening of shareholder democracy and thus the role of shareholders.

The action plan contemplates using non-binding recommendations and codes of conduct both at EU and national levels. The European Commission does not suggest that action be taken at EU level to establish a code of conduct like that adopted by the OECD or like that introduced in nearly all EU member states in recent years. Instead, it proposes looking at areas where EU regulation is specifically needed, just as it suggests that the EU play a coordinating role in the member states' development of codes of conduct.

The European Commission has not chosen the detail-oriented and rule-intensive approach that is taken in the Sarbanes-Oxley Act and which is difficult to use in a European context where problems, markets, traditions and cultures differ in several respects from those seen in the USA.

According to the European Commission's action plan, the annual reports of listed companies should contain a statement on their corporate governance structures and practice, including voting rights and ownership details, the composition of the supervisory board, etc. The existence of a relevant code of conduct and the compliance or non-compliance with such code by the individual company should also be described (the "comply-or-explain" principle).

<sup>5</sup> The Committee has commented on the European Commission's action plan. The Committee's comments are available at [www.corporategovernance.dk](http://www.corporategovernance.dk).

Action should also be taken to make it easier for the shareholders of listed companies to exert their influence. One way of ensuring this would be to remove the legal barriers to using communications technology. A company's website and the Internet can contribute substantially to making communication with shareholders easier and cheaper and to making the preparation and holding of general meetings smoother than previously.

In certain areas where the members of a company's management have conflicting interests, the action plan contemplates introducing requirements of independence for persons taking part in decision-making processes. One consequence is that the majority of the members of supervisory board, audit or remuneration committees must remain independent.

The European Commission proposes that institutional investors be ordered to account for their investment policy and for their policy on the exercise of voting rights in the companies in which they invest. This will allow pension clients and others to check whether and how the relevant institutional investor exercises its voting rights in a given situation.

The action plan prepared by the European Commission was submitted for consultation in the summer of 2003. A number of specific initiatives are expected to be taken in the coming months. They will not all take the form of traditional EU legislative acts (such as directives and regulations), but will be drawn up as recommendations in some areas.

#### 4.3 National initiatives abroad

A comparison of measures taken at national level shows that the development of adopting voluntary codes of conduct, already observable at the release of the Nørby Committee's report in 2001, has continued as the originally adopted codes of conduct in many countries have been replaced by second-generation (or third-generation) codes. This applies, for example, to the German code of conduct (most recently amended in May 2003) replacing the former two codes of conduct, the Dutch code of conduct and most recently the French code of conduct (from October 2003).

Appendix 2 lists existing codes of conduct in different countries, including the date of their latest amendments.

The events in the USA and the initiatives taken at EU level have affected the development of corporate governance in the individual member states. Concepts such as control, risk management, independence and transparency thus play a key role in the ongoing debate in most European countries.

This is especially so in the United Kingdom, where the British Combined Code was amended in July 2003. The amendments

reflect the recommendations in the *Audit Committees Combined Code Guidance* report prepared by a task force headed by Sir Robert Smith and in the *Review of the Role and Effectiveness of Non-executive Directors* report released by Derek Higgs (the Higgs report).

For example, the Higgs report recommends that the role of the chairman of the supervisory board and that of the CEO of a listed company be separated; that more independent members be appointed to the supervisory board; that the role of the independent members be defined in precise terms; and that a senior independent director be appointed among the independent members of the supervisory board.

The Combined Code reflects a management structure distinct from, say, that seen in Denmark, there being only one management body (one tier): the supervisory board, whereas Denmark and certain other European countries have two: a supervisory board and an executive board. At the functional level – often involving separate meetings with participation from only independent members – the British system resembles the Danish system in some respects, however.

The British Combined Code is an important – and probably the key – source of inspiration to the committees or bodies developing and updating codes of conduct in other countries, both inside and outside the EU, excluding the USA.

In 2002, the US-based law firm of Weil, Gottschal & Manges drew up the following report for the European Commission: *Comparative Study of Corporate Governance Codes relevant to the European Union and its Member States*. This report compares and comments on corporate governance codes of conduct and points out that the individual codes converge substantially.

Until recently, the other Nordic countries had no fixed codes of conduct, but Sweden now has a corporate governance policy drawn up in 2001 by the Swedish Shareholders Association. In Norway and Finland, the results of drawing up voluntary codes of conduct have recently been published.

The OECD is revising its 1999 guidelines. According to information received, the revised guidelines will be of a general and overall nature as is the case of the current guidelines.

#### 4.4 Summary

When the Nørby Committee published its report in December 2001, focus on risks of irregularities and misuse in companies was not as strong as it has been after the release of the report.

The initiatives taken by the USA, by the EU and at national level all reflect an approach that aims to avoid such problems in future. The key words are control, reliability, risk management, independence and transparency.

The development described above for corporate governance is quite understandable – and may also be needed.

However, the question yet to be answered is whether all the reactions to the problems that have emerged are relevant or whether some of them have resulted in an approach that focuses too much on risk, misuse and control. Imposing further obligations on companies entails more costs and involves the use of more resources, which must be seen against the background that the large majority of companies function and act as they are legitimately expected to do.

## 5 The need for revision of the Nørby Committee's recommendations

In the light of the development having taken place internationally and in Denmark in the area of corporate governance, the Committee has assessed the need for a revision of the Nørby Committee's recommendations.

The Committee's assessment highlights key areas where changes to the existing recommendations may be considered. The following paragraphs point out a number of areas where the Committee believes there may be a need for revision or elaboration of the existing recommendations. The paragraphs also describe a number of areas where the Committee has discussed the need for changes, but where it has not yet made any proposals. In section 7, the Committee presents its proposal for revised recommendations.

Two important factors underlying the Committee's assessment must be singled out: The Nørby Committee's recommendations are fundamentally appropriate, and their effect is as intended.

These conditions imply that the need for a revision of the recommendations is a question of revising or elaborating the existing recommendations rather than changing them fundamentally.

### *Degree of specification*

The specific nature of the existing recommendations was chosen by the Nørby Committee with the aim of setting a framework for the debate on corporate governance that companies and their managements could address specifically.

In the light of the international development of corporate governance and its general acceptance in Denmark, it is arguable whether the same degree of specification would be needed, should a brand new set of recommendations be drawn up right now. Conversely, the fact that the specific nature of the recommendations has made them operational and been a tool for an active approach cannot be disregarded.

According to the Committee, some of the recommendations for corporate governance could preferably be revised to shift focus from giving companies specific instructions to ensuring that the individual company uses the relevant principles and basic ideas for the purpose of finding the solutions best suited for that company's situation and needs.

The degree of specification in respect of the recommendations must be seen against the background that a comply-or-explain principle could be the outcome of EU initiatives. In the light of the development having taken place since and by virtue of the Nørby Committee's recommendations, the Committee suggests a more balanced approach to some of the specific limits set out in the recommendations for age, term of office and number of supervisory board meetings.

### *Target group*

The Committee has discussed the need to differentiate the recommendations according to the size of the individual companies. Generally, the Committee does not believe that it is necessary to distinguish between recommendations targeted at small companies and recommendations targeted at large companies.

Listed companies whose shares are offered to the public and which, as a result, have a relatively broad ownership base should generally be subject to the same high requirements for corporate governance, irrespective of their size.

However, this does not rule out the possibility that the size of a company, its degree of international commitment, etc., could imply a different approach to a specific recommendation.

### *Interaction between the supervisory board and the executive board*

In countries such as the USA and the United Kingdom, the corporate governance debate focuses on the supervisory board's role as a body supervising the activities of the executive board (day-to-day management). Most of the debate centres on how to introduce measures to ensure that the entire supervisory board remains sufficiently independent of the executive board to maintain its supervisory role, while continuing to have an informed insight into the company's affairs.

In relation to the Danish two-tier management structure, where different persons, as the principal rule, sit on the supervisory and executive boards, considerations in respect of the balance between independence, control and insight are also important, although Danish company law already addresses some of the problems that attract attention in certain other countries.

Basically, Danish company law sets a framework for the tasks and responsibilities to be assigned to the supervisory board, including the chairman, and to the executive board, respectively. It stipulates that the majority of the members of the supervisory board may not be executive officers of the relevant company and that the chairman of the supervisory board and the CEO may not be one and the same person. This is very common in the USA, just as duality of roles is generally the rule rather than the exception.

In Denmark, the supervisory board must perform the role as a body supervising the activities of the executive board, while drawing up or addressing strategies and acting as a sounding board for the executive board.

The balance to be achieved in the supervisory board's composition and work requires taking a position on the degree of independence needed for the supervisory board to exercise its supervision effectively as well as taking a position on how to best ensure that the supervisory board has the necessary insight into the

company's affairs for it to perform its supervision and act as a strategic and tactical partner for the executive board – naturally in compliance with existing legislation.

The supervisory board's role of supervising the activities of the executive board is important, but no attempts to strengthen this role must be made at the expense of the supervisory board's value-creating role and strategy work. Efforts must be made to allow the supervisory board to perform its role as a supervising and value-creating corporate body in an expedient manner. The individual supervisory board must ensure that control procedures and value-creating processes are properly balanced. This process must not only take place in compliance with rules and procedures, but should also take place specifically in the interaction between the management bodies.

#### *Supervisory board committees*

The Danish management structure and its inherent traditions mean that the supervisory boards of Danish companies are generally smaller than seen in the USA and the United Kingdom, for example.

The sometimes quite big supervisory boards seen abroad, combined with increased focus on the supervisory role, have made the use of supervisory board committees more widespread and even mandatory in certain countries and on certain stock exchanges in respect of certain of these committees.

Supervisory board committees have different roles and names, but the prevailing ones are currently audit committees, nomination committees and remuneration committees.

In Denmark, opinions differ over the expediency of using supervisory board committees. On the basis of the typical size of the supervisory board of a Danish listed company, the Nørby Committee generally recommended that no supervisory board committees be used.

However, international trends and increased focus on control mean that it cannot be ruled out that Danish companies with particularly complex accounting and auditing needs could profit by using an audit committee.

It is essential to keep in mind that the use of supervisory board committees does not change the fact that the supervisory board of an individual company makes its decisions and performs its transactions as a corporate body and that the supervisory board must consequently consider whether using such committees can provide quality to the decision-making process.

A supervisory board committee may perform a preparatory role only. The responsibility for the decisions and work of the supervi-

sory board must remain with the entire board. This must be reflected in the company's business procedures.

#### *Risk management*

In a corporate context, a risk is defined as any event the occurrence of which may prevent a company from realising its goals or from achieving all of its goals. Given the insight into and experience of corporate governance currently available, the question of risk management becomes a key element in corporate governance.

In the United Kingdom for example, the issue of risk management has been thoroughly addressed in connection with corporate governance. This means that British companies have received substantial advice on what action to take in relation to risk management. Some of the tools developed for risk management are the so-called compliance programmes.

The Nørby Committee states in its recommendations that there may be a need to specify the section on risk management. The Committee has drawn up a draft in this respect.

#### *Auditing*

The international debate on and the development of corporate governance have focused considerably on the auditors' role and tasks.

The supervisory board should focus on the relationship between the supervisory board and the auditors. The responsibility for recommending auditors for appointment by election rests with the supervisory board and not the executive board.

The basis of agreement with the auditors and thus the framework for the auditors' work should be determined by the supervisory board.

The supervisory board may choose to keep focus on the auditing process and ensure a meticulous review of auditing and accounting conditions by setting up an audit committee.

The Nørby Committee's report contains no recommendations for the relationship between a company and its auditors. The Committee is of the opinion that international trends – to name one factor – make it necessary to specify individual items in relation to the election of and cooperation with the auditors.

#### *The independence of the supervisory board*

The question of the independence of the members of the supervisory board is pivotal in relation to a number of corporate governance areas. The Committee is aware that the question of independence may depend on the individual situation and that not all is

covered by the definition of independence provided in the existing recommendations.

The individual company must take relevant action in each specific case to enable the company in general meeting to appoint a supervisory board that is mainly made up of persons meeting the definition of independence.

#### *Staff-elected members of the supervisory board*

Staff-elected members of the supervisory board who by virtue of their employment with the company are not independent may jeopardise the independence of the supervisory board if the situation is not explained to foreign investors in particular.

The Nørby Committee's recommendations do not describe the role of staff-elected members of the supervisory board. Information on the duties and responsibilities of staff-elected members of the supervisory board could preferably be included in the recommendations.

#### *Voting rights differentiation in the number of shares (via class A and class B shares, for example)*

Generally, the principles of freedom of contract apply to the arrangement of an individual company's capital structure. This means that market players are free to assess and decide whether they want to invest in the relevant company.

Transparency is a key factor to enable market players to make this decision. It is therefore important that the company's management explains and describes the company's capital structure and the considerations taken in that respects.

#### *Information on the remuneration of executives*

Transparency in respect of the remuneration of individual executives is discussed internationally. In this connection, some point out that full transparency is needed as non-transparency may discredit the individual company. However, others say that knowing the principles underlying such remuneration – and not the actual amount paid to an individual executive – is essential.

The Committee believes that the outside world has a particular interest in knowing about special agreements to remunerate the management of a company, including agreements for severance pay, pensions, etc.

The disclosure requirements of the Copenhagen Stock Exchange stipulate that listed companies must inform the Copenhagen Stock Exchange of any special agreements for the supervisory and executive boards, including special agreements for severance pay, as well as any extraordinary incentive schemes and the like offered to a company's supervisory and executive boards. Finally, individual details must be provided for any extraordinary fees paid to the members of the supervisory board in addition to ordinary fees.

International practice tends towards publication of individual remuneration information, including details of the composition of each person's "remuneration package".

#### *Long-term focus and quarterly reports*

The Nørby Committee's report recommends that companies publish quarterly reports. Discussions have taken place on the risk that presenting quarterly reports may reduce corporate focus to a short-term outlook.

According to the Committee, periodical information (including quarterly information) from the companies to the markets is essential to ensure a well-functioning stock market and confidence in companies. But the Committee also points out that it is important that the individual supervisory board takes every step to prevent quarterly accounting details from leading to any short-term decisions by the executive and supervisory boards and to ensure that adequate resources are allocated to the supervisory board to allow it to address long-term issues.

#### *The relationship with the company's owners – general meetings*

Following the publication of the Nørby Committee's report, Danish company law has been amended in some respects. The new rules allow general meetings to take place electronically and also enable electronic communication between a company and its shareholders and between individual shareholders (electronic notices to convene general meetings and electronic proxies, for example). Electronic communication may take place when the company in general meeting has passed a resolution in this respect or when the company and its shareholders conclude a bilateral agreement to do so.

## 6 Considerations for future work in the light of the past development in this area

This report forms the basis for a consultation process. On the basis of the comments to be received, the Committee intends to draw up a consultation paper outlining the general positions stated by the individual parties.

Furthermore, the Committee will make a thorough assessment of the comments received and also assess the consequences in relation to the Committee's specific proposals for revised recommendations.

The Committee believes – and has based its work on this idea – that corporate governance guidelines must remain non-binding recommendations.

The Committee also believes that the Copenhagen Stock Exchange is the right forum in which to embed such recommendations – however, on the condition that a body continues to monitor the development of corporate governance and is in a position to react promptly if revisions of the recommendations are deemed relevant or needed. This is consistent with the position and possibility expressed by the European Commission in its action plan and supported by the Committee in its comments to the action plan.

The Committee finds that having a committee that monitors the development of corporate governance and which ensures that recommendations have the intended dynamic effect in practice helps support the work and focus on corporate governance in Denmark.

The recommendations include the following eight main areas:

- I. The role of the shareholders and their interaction with the management of the company
- II. The role of the stakeholders and their importance to the company
- III. Openness and transparency
- IV. The tasks and responsibilities of the supervisory board
- V. The composition of the supervisory board
- VI. Remuneration to the members of the supervisory board and the executive board
- VII. Risk management
- VIII. Audit

### **I. The role of the shareholders and their interaction with the management of the company**

The shareholders, the owners of the companies and society have a joint interest in the companies always being capable of adjusting to changing demands, which allows the companies to continue to be competitive and continue to create value. Corporate governance implies that the supervisory board and the executive board understand that interaction between the management and the shareholders is of vital importance to the company. As owners of the company, the shareholders can actively exercise their rights and use their influence resulting in the management protecting the interests of the shareholders as best as possible, and ensuring efficient deployment of the company's funds both in the short as well as the long term.

Therefore, good corporate governance depends on appropriate frameworks which encourage the shareholders to enter into a dialogue with the management of the company and each other. This can be encouraged through a strengthening of the general meeting's role as a forum for communication and decisions, and by creating proportionality between capital investments and the voting rights of all the shares in the company.

### **1. Exercise of ownership and communication**

The shareholders can be motivated to exercise their rights and to use their influence if the supervisory board makes it as easy and costless as possible for the shareholders. It is recommended that the companies look into in which areas information technology can be used to improve the communication between the company and the shareholders, and between the individual shareholders in the company

### **2. Restrictions on voting rights etc.**

It is not recommended to include provisions which contain voting rights differentiation restrict the number of votes which the individual shareholder can cast, or which restrict the number of shares which the individual shareholder may own in the company.

If these restrictions are already part of a company's articles of association, it is recommended that the supervisory board evalu-

ates the expediency of this and accounts for its evaluation of whether a revocation of these restrictions is desirable and possible in the annual report.

### **3. Preparation for the general meeting including notice of meeting and proxy**

It is recommended that the general meeting is called with sufficient notice so that the shareholders are able to prepare for the meeting and decide on the issues which will be dealt with at the general meeting. The notice of meeting, including the agenda, should be drawn up in such a way that the shareholders are provided with a satisfactory picture of the matters included in the points of the agenda. Proxies given to a company's supervisory board shall be limited to one particular general meeting and should, as far as possible, include the position of the shareholder regarding each point on the agenda.

### **4. Duties of the board and rights of the shareholders in the event of takeover bids**

In the event of attempted takeovers, it is recommended that the shareholders are given the opportunity to decide if they wish to surrender their shares in the company on the conditions offered. Therefore, without the acceptance of the general meeting, or on its own, the supervisory board should refrain from countering a takeover bid by reaching decisions which in reality prevent the shareholders from deciding on the takeover bid. The decisions which are advised against include implementing capital increases or allowing the company to buy its own shares based on a previously announced authority for instance.

### **II. The role of the stakeholders and their importance to the company**

It is decisive for a company's prosperity and future possibilities that the company has a good relationship with its stakeholders. Stakeholders are everyone who are directly affected by the company's decisions and business. Thus, it is desirable that the company's management runs and develops the company with due consideration of its stakeholders, and that the management provides an incentive for a dialogue with these.

A successful interaction between the company and its stakeholders implies openness and mutual respect.

### **1. The company's policies in relation to the stakeholders**

It is recommended that the supervisory board adopts a policy regarding the company's relationship with its stakeholders which, for instance, could include the company's business concept and its basic values and objectives. One element of such a policy could be the guidelines for the company's information about environmental and social issues, for example.

## 2. The role of the stakeholders and their interests

It is recommended that the supervisory board ensures that the interests and roles of the stakeholders are respected in accordance with the company's policy regarding this. As part of performing this, it is natural that the supervisory board ensures that there is an ongoing dialogue between the management and the company's stakeholders, in order to develop and strengthen the company.

### III. Openness and transparency

To various extents it is necessary to provide shareholders, including potential shareholders and other stakeholders, with information about the company. How they understand and relate to the company depends on the amount of information and the quality of the information published or provided by the company. Openness and transparency are essential conditions for ensuring that the company's shareholders and other stakeholders are able to continuously evaluate and relate to the company and its prospects, and through this, openness and transparency can contribute to a constructive interaction with the company.

## 1. Information and publication of information

It is recommended that the supervisory board adopts an information and communication policy. Furthermore, it is recommended that the company develops procedures which ensure that the company immediately publishes all essential information of importance for how the shareholders and the financial markets evaluate the company and its activities, as well as its business goals, strategies and results, unless publication can be omitted according to the legal rules of the stock exchange. The publication must be carried out in a reliable and adequate manner.

It is recommended that published information is both in Danish and in English, and if necessary, any other relevant languages and that it includes the use of the company's website. The company should have identical websites in Danish and English and any other languages if relevant.

## 2. Investor relations

It is recommended that the supervisory board ensures that the continuous dialogue between the company and the company's shareholders and potential shareholders is made flexible. This can be done in the following ways:

- by holding investor meetings.
- by continuously evaluating if information technology can be used to improve investor relations, including using part of the company's website to deal with corporate governance related issues.
- by making all investor presentations accessible on the Internet at the same time as they are made.

## 3. Annual report

The annual report must be presented according to the relevant Danish laws. Listed companies shall on a consolidated basis apply the international accounting standards IAS/IFRS as from 2005. Other accepted standards such as US-GAAP can be applied as supplements, if this is relevant in connection with trade conditions or other circumstances with regard to the information requirements of the recipients, including comparability facilitation.

## 4. Additional information

In connection with the preparation of the annual report it is recommended that the supervisory board decides if it is expedient that the company publishes further elaborating non-financial information, even in instances where this is not required by the Danish Financial Statements Act or any other laws. Such information could be information about the company's

- development and maintenance of internal knowledge resources.
- ethical and social responsibilities.
- health and safety policies.

## 5. Quarterly reports

It is recommended that companies use quarterly reports.

### IV. The tasks and responsibilities of the supervisory board

The supervisory board is responsible for carefully safeguarding the shareholders' interests, with due consideration of the other stakeholders. As concerns the managerial division of tasks between the supervisory board and the executive board, the supervisory board is assigned with, and responsible for, handling the overall management of the company, as well as supervising and establishing the guidelines for the executive board's work. One important management task is to develop and establish appropriate strategies for the company. It is important that the supervisory board ensures that there is continuous development and follow-up on the necessary strategies in collaboration with the executive board.

## 1. The overall tasks and responsibilities of the supervisory board

The supervisory board must handle the overall strategic management and the financial and the managerial supervision of the company and continuously evaluate the executive board's work. The supervisory board's most essential tasks include:

- establishing the overall goals and strategies and following up on these.
- ensuring clear guidelines for responsibility, distribution of responsibilities, planning and follow-up, as well as risk management.

- appointing a qualified executive board, establish the managers' conditions of employment, including preparing guidelines for the appointment and composition of the executive board, as well as ensuring that the remuneration of the executives reflects the results they achieve.
- ensuring that relations to the company's stakeholders are good and constructive.

## 2. The chairman's tasks

The chairman is especially responsible for ensuring that the supervisory board functions satisfactorily and that the tasks of the supervisory board are handled in the best possible way. In this connection, it is recommended that the chairman ensures that the individual member of the supervisory board's particular knowledge and competence are used as best as possible in the supervisory board work for the benefit of the company. The supervisory board's frequency of meeting is planned in such a way that the supervisory board acts as an active sparring partner to the executive board and is able to react quickly and efficiently at all times.

It is recommended that the company appoints a deputy chairman. The deputy chairman must be able to act in the chairman's absence and in addition be an efficient sparring partner to the chairman. The chairman should try to ensure that the board's negotiations take place when all the members of the supervisory board are present and that all essential decisions are made when all the members of the supervisory board are present.

It is recommended that the company prepares a work and task description containing a description of the tasks, duties and responsibilities of the chairman, and the deputy chairman, if required.

## 3. Procedures

It is essential that the procedures of the supervisory board are an efficient and functional tool for solving the supervisory board's tasks. It is recommended that the procedures are always adjusted to the requirements of the individual company, and that all the members of the supervisory board review the procedures with regard to ensuring this at least once a year.

## 4. Information from the executive board to the supervisory board

It is recommended that the supervisory board establish procedures for how the executive board reports to the supervisory board and for any other communication between the supervisory board and the executive board. This will ensure that the supervisory board is provided with the information about the company's business which the supervisory board requires on a continuous basis. In all circumstances the executive board must ensure that the supervisory board is provided with essential information, whether the supervisory board has requested it or not.

## V. Composition of the supervisory board

It is essential that the supervisory board is composed in a such a manner that it is capable of handling its managerial tasks, including the strategic tasks of the company in a efficient and forward looking manner, and that it acts as a constructive and qualified sparring partner for the executive board at the same time. It is also essential that the members of the supervisory board always act independently of special interests. The supervisory board must continuously ensure that its composition and its procedures reflect the demands posed by the company's current situation and circumstances.

### 1. Recruitment and election of members of the supervisory board

It is recommended that the supervisory board ensures that the candidates for the supervisory board, who are nominated by the supervisory board, have the relevant and necessary knowledge and professional experience in relation to the requirements of the company, including the necessary international background and experience if this is relevant. The supervisory board should ensure a formal, thorough and transparent nomination process. Moreover, the supervisory board should ensure that a given board composition as a whole will provide the supervisory board with the skills that are necessary for the supervisory board to be able to perform its tasks in the best possible way.

It is recommended that the supervisory board encloses a description of the nominated candidates' background in the notice of the general meeting when the election of the members of the supervisory board is on the agenda. At the same time, the supervisory board should state the recruitment criteria which the supervisory board has established, including the requirements of professional qualifications, international experience etc. which, in the opinion of the supervisory board, represent essential qualities with regard to the supervisory board. The owners of the company should be given an opportunity to discuss these criteria. Also, other executive functions of the candidates in other Danish or foreign companies and organisations should be disclosed.

### 2. Training and introduction for members of the supervisory board

When new members of the supervisory board join the supervisory board it is recommended that they are given an introduction to the company and that the chairman, in collaboration with the individual supervisory board member, decides if it is necessary to offer the member in question any relevant, supplementary training. The training, which can also be offered continuously, should be adjusted to the individual supervisory board member's needs and should ensure that each of the members of the supervisory board are capable of:

- taking part in a qualified dialogue with the executive board about the company's strategic development and prospects.
- acquiring and keeping an overview of the company's core areas, activities and the conditions of the industry in question.
- actively participating in the supervisory board work.

In addition, the members of the supervisory board are solely responsible for actively obtaining knowledge and continuously keeping themselves posted about the conditions of the company and the industry in question.

### 3. The number of supervisory board members

It is important that the supervisory board has a size which allows for a constructive debate and an efficient decision process, in which it is possible for all the members of the supervisory board to play an active part. Against this background it is recommended that the supervisory board consists of no more than six members elected by the general meeting. The supervisory board must consider if the number of supervisory board members is appropriate in relation to the requirements of the company on an on-going basis.

### 4. The supervisory board's independence

It is important that the supervisory board is composed in such a way that its members can act independently of special interests. Therefore, it is recommended that the majority of the members of the supervisory board elected by the general meeting are independent. In this context an independent supervisory board member elected by the general meeting cannot:

- be an employee in the company or be someone who has been employed in the company in the past five years.
- have been a member of the executive board of the company.
- be a professional consultant to the company or be employed by, or have a financial interest in, a company which is a professional consultant to the company.
- have some other essential strategic interest in the company other than that of a shareholder.

We cannot recommend that members of the executive board of a company are also members of the supervisory board of the company. This also applies to situation in which major shareholders are executives of a company as well as supervisory board members at the same time. In companies with one major shareholder, the supervisory board should pay special attention to the safeguarding of the other shareholders' interests on equal terms with the major shareholder's interests at all times.

It is recommended that the annual report contains the following information about the supervisory board members elected by the general meeting:

- the supervisory board member's occupation.

- the supervisory board member's other managerial positions or directorships in Danish as well as foreign companies and organisations.
- how many shares, options and warrants the supervisory board member owns in the company and in affiliated companies and the changes in the supervisory board member's portfolio of the mentioned securities which have taken place during the accounting year.

### 5. Staff-elected members of the supervisory board

Supervisory board members elected by the staff have the same rights, obligations and duties as the supervisory board members elected by the general meeting. By virtue of their employment by the company they are not independent. It is recommended that each company considers the need to explain the system regarding staff-elected members of the supervisory board in the annual report, on the company's website or otherwise, which will particularly be relevant to ensure foreign investors' understanding of the importance and function of such system.

### 6. Meeting frequency

It is recommended that the supervisory board meets regularly according to a pre-prepared meeting and work schedule and when a meeting seems necessary or appropriate in the light of the company's requirements. The annual meeting frequency should be published in the annual report.

### 7. Time allocated to supervisory board work and the number of supervisory board seats

It is important that the individual member of the supervisory board understands what time requirements the supervisory board work places on him in advance and that he allocates sufficient time for his tasks on the supervisory board. It is recommended that a supervisory board member who is also a member of the executive team of an active company does not hold more than three ordinary supervisory board seats or one chairmanship and one ordinary supervisory board seat in companies which are not part of the group, except in exceptional circumstances.

### 8. Retirement age

The annual report should contain information about the age of the individual members of the supervisory board. It is recommended that the company fixes a retirement age for members of the supervisory board.

### 9. Election period

It is recommended that members of the supervisory board are up for (re)election each year at the general meeting. Continuity should be maintained through the replacement of the supervisory board. The annual report should state when the member of the supervisory board joined the board, if the member of the supervisory board has been reelected and when the new election

period expires. It is recommended that the company fixes a period after which the chairman and the other members of the supervisory board no longer can be elected or reelected.

If a supervisory board member's conditions of employment change during an election period he should inform the other members of the supervisory board of this and be prepared to make his mandate available at the next general meeting.

#### 10. Use of board committees

Whether a board committee should be established depends on the specific conditions of each company, including the size and modus operandi of the supervisory board and the size and complexity of the company. If the supervisory board appoints a committee, this should only be done in connection with matters regarding limited subjects in order to prepare decisions that must be reached by all of the members of the supervisory board. It is important that the supervisory board ensures that the appointment of a board committee does not result in important information directed at all members of the supervisory board only reaching the board committee. The supervisory board must disclose whether it has chosen to use board committees in the annual report and, if so, the reason why. Moreover, the company may benefit from disclosing essential items of the rules of procedure of the board committee as well as the names of the members.

#### 11. Self-assessment of the supervisory board's work

We recommend that the supervisory board establishes an assessment process which continuously and systematically evaluates the work, results and composition of the supervisory board and the individual board members, including the chairman, in order to improve the supervisory board's work. In this connection, the criteria of the evaluation should be clearly specified. When assessing the supervisory board as a whole, there is a clear need to evaluate to what extent previously established strategic goals and plans have been realised. It will be appropriate to carry out the assessment once a year and the chairman will be responsible for this, and if necessary, with external help. The result will be discussed by the entire supervisory board. Furthermore, it is recommended that the supervisory board states the procedures of the supervisory board's self-assessment in the annual report.

#### 12. Assessment of the executive board's work

It is recommended that the supervisory board evaluates the executive board's work and results according to already established explicit criteria once a year.

#### 13. Assessment of the collaboration between the supervisory board and the executive board

It is recommended that the executive board and the supervisory board establish a procedure by which the collaboration between the supervisory board and the executive board is assessed in an

annual meeting between the CEO and the chairman of the supervisory board. The result of the assessment should be presented to the entire supervisory board.

### VI. Remuneration to the members of the supervisory board and the executive board

A competitive remuneration is a prerequisite for attracting and keeping competent supervisory board members and executives. The remuneration to the supervisory board members and the executives should be reasonable in connection with the assigned tasks and the responsibilities which are connected with solving these tasks.

Performance-related pay may result in conflicting interests between the shareholders and the executives, and may lead to the executives focusing on increasing the value creation of the company.

It is important that there is openness about all important issues regarding the principles and size of the total remuneration to the members of the supervisory board and the executive board.

#### 1. Remuneration

It is recommended that the total remuneration (basic pay, bonus, price-related incentive schemes, pension, severance pay and other benefits) is at a competitive and fair level and reflects the executives' and supervisory board members' independent achievements and value creation in the company.

#### 2. Openness about remuneration

It is recommended that the annual report contains information on the principles and size of the total remuneration to the members of the supervisory board and the executive board.

#### 3. Principles of establishing incentive schemes

The supervisory board establishes the principles and the guidelines for the preparation of any incentive schemes for the company's executives and supervisory board members, and concerning the latter, with regard to their acceptance at the general meeting. It is recommended that the total remuneration is competitive and reasonable and that it reflects how the executives and supervisory board members have performed independently, as well as how much value they have created for the company. Likewise, incentive schemes should reflect the interests of the shareholders and the company, be adjusted to the company's specific circumstances and be reasonable in relation to the tasks and the responsibilities of the executives and supervisory board members.

The remuneration for the members of the supervisory board may consist of incentive schemes, including bonus schemes and shares at market price, but we cannot recommend that it consists of share option schemes.

If the remuneration for the executives consists of share or subscription options, we recommend that the schemes are set up as

roll-over schemes (i.e. the options are allocated and expire over a number of years) and that the redemption price is higher than the market price at the time of the allocation. Moreover, the schemes should be set up in a way that promotes long-term behaviour and they should be transparent, as well as clearly understandable to outsiders. Valuation should be made according to generally accepted methods.

#### **4. Openness and transparency regarding performance-related pay based on shares**

We recommend that all important issues regarding performance-related pay based on shares are published in the company's annual report, including who receives it and what the total for the executives and the supervisory board members amounts to. Likewise, information about the incentive remuneration based on shares to the individual member of the supervisory board or executive should also be published in the company's annual report.

#### **5. Severance schemes for the managers**

It is recommended that the most important contents of the severance schemes shall be disclosed in the company's annual report.

#### **VII. Risk management**

Efficient risk management is a prerequisite for the supervisory board being able to perform the tasks for which it is responsible in the best possible way. Thus it is important that the supervisory board ensures that there are appropriate systems for risk management in place and, moreover, ensures that such systems meet the requirements of the company at any time.

The purpose of risk management is:

- to develop and maintain an understanding within the organisation of the company's strategic and operational goals, including identification of the critical success factors for achieving goals.
- to analyse the possibilities and challenges which are connected with the realisation of the above goals and to analyse the risk of these goals not being met.
- to analyse the most important activities of the company in order to identify the risks attached hereto.
- to determine the venture spirit of the company.

#### **1. Identification of risks**

When formulating the company's strategy and overall goals, it is recommended that the supervisory board and executive board identify the greatest business risks involved in the realisation hereof.

#### **2. Plan for risk management**

It is recommended that the executive board on the basis of the identified risks prepares a plan for the company's risk management and submits it for supervisory board approval. The executive

board should currently report to the supervisory board so that the supervisory board can systematically follow the development in significant risk areas. The report may, among other things, contain procedures and action plans that can eliminate, reduce, divide or accept these risks.

#### **3. Openness**

It is recommended that the company's annual report contains information about the company's risk management activities.

#### **VIII. Audit**

Ensuring a competent and independent audit is an essential element of the supervisory board's work. It is recommended that the contractual basis and thus the framework of the auditor's work is determined by the supervisory board.

#### **1. The supervisory board's nomination of auditor-candidate**

The supervisory board should in consultation with the executive board make a specific and critical assessment of the auditor's independence and competence, etc to be used in connection with the presentation of the nomination at the general meeting.

#### **2. The agreement with the auditor**

The auditor agreement and the auditor's fee should be agreed between the company's supervisory board and the auditor.

#### **3. Non-auditor services**

The supervisory board should adopt an overall, general framework for the auditor's provision of non-auditor services with a view to ensuring the auditor's independence, etc.

#### **4. Internal control systems**

The supervisory board should at least once a year review and assess the internal control systems within the company as well as the management's guidelines for and monitoring of such systems.

#### **5. Accounting policies and accounting estimates**

When the supervisory board reviews the annual report (or a draft of the annual report) together with the auditor the accounting policies and accounting estimates should be discussed. The expediency of the chosen accounting policies should be considered.

#### **6. Result of the audit**

The result of the audit should be discussed at meetings with the supervisory board in order to review the auditor's observations and opinion, possibly based on a draft of the long-form audit report.

#### **7. Audit committee**

In companies with complex accounting and audit conditions the supervisory board should consider whether to establish an audit committee to assist the board in matters involving accounting and audit questions.

**Committee's proposal for revised recommendations**

(Please note that we have changed terminology since the Nørby report - e.g. from board of directors to supervisory board, etc.)

<p><b>The recommendations include the following eight main areas:</b></p> <ul style="list-style-type: none"> <li>I. The role of the shareholders and their interaction with the management of the company</li> <li>II. The role of the stakeholders and their importance to the company</li> <li>III. Openness and transparency</li> <li>IV. The tasks and responsibilities of the supervisory board</li> <li>V. The composition of the supervisory board</li> <li>VI. Remuneration to the members of the supervisory board and the executive board</li> <li>VII. Risk management</li> <li>VIII. Audit</li> </ul> <p><b>I. The role of the shareholders and their interaction with the management of the company</b></p> <p>The shareholders, the owners of the companies and society have a joint interest in the companies always being capable of adjusting to changing demands, which allows the companies to continue to be competitive and continue to create value. Corporate governance implies that the supervisory board and the executive board understand that interaction between the management and the shareholders is of vital importance to the company. As owners of the company, the shareholders can actively exercise their rights and use their influence resulting in the management protecting the interests of the shareholders as best as possible, and ensuring efficient deployment of the company's funds both in the short as well as the long term.</p> <p>Therefore, good corporate governance depends on appropriate frameworks which encourage the shareholders to enter into a dialogue with the management of the company and each other. This can be encouraged through a strengthening of the general meeting's role as a forum for communication and decisions, and by creating proportionality between capital investments and the voting rights of all the shares in the company.</p> <p><b>1. Exercise of ownership and communication</b></p> <p>The shareholders can be motivated to exercise their rights and to use their influence if the supervisory board makes it as easy and costless as possible for the shareholders. It is recommended that the companies look into in which areas information technology can be used to improve the communication between the company and the shareholders, and between the individual shareholders in the company</p> <p><b>2. Restrictions on voting rights etc.</b></p> <p>It is not recommended to include provisions which contain voting rights differentiation restrict the number of votes which the individual shareholder can cast, or which restrict the number of shares which the individual shareholder may own in the company.</p> <p>If these restrictions are already part of a company's articles of association, it is recommended that the supervisory board evaluates the expediency of this and accounts for its evaluation of whether a revocation of these restrictions is desirable and possible in the annual report.</p> <p><b>3. Preparation for the general meeting including notice of meeting and proxy</b></p> <p>It is recommended that the general meeting is called with sufficient notice so that the shareholders are able to prepare for the meeting and decide on the issues which will be dealt with at the general meeting. The notice of meeting, including the agenda, should be drawn up in such a way that the shareholders are provided with a satisfactory picture of the matters included in the points of the agenda. Proxies given to a company's supervisory board shall be limited to one particular general meeting and should, as far as possible, include the position of the shareholder regarding each point on the agenda.</p>
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**Nørby Committee's recommendations of December 2001**

<p><b>The recommendations include the following seven main areas:</b></p> <ul style="list-style-type: none"> <li>I. The role of the shareholders and their interaction with the management of the company</li> <li>II. The role of the stakeholders and their importance to the company</li> <li>III. Openness and transparency</li> <li>IV. The tasks and responsibilities of the board</li> <li>V. The composition of the board</li> <li>VI. Remuneration to the directors and the managers</li> <li>VII. Risk management</li> </ul> <p><b>I. The role of the shareholders and their interaction with the management of the company</b></p> <p>The shareholders, the owners of the companies and society have a joint interest in the companies always being capable of adjusting to changing demands, which allows the companies to continue to be competitive and continue to create value. Good corporate governance implies that the board and the management understand that interaction between the management and the shareholders is of vital importance to the company. As owners of the company, the shareholders can actively exercise their rights and use their influence resulting in the management protecting the interests of the shareholders as best as possible, and ensuring efficient deployment of the company's funds both in the short as well as the long term.</p> <p>Therefore, good corporate governance depends on appropriate frameworks which encourage the shareholders to enter into a dialogue with the management of the company and each other. This can be encouraged through a strengthening of the AGM's role as a forum for communication and decisions, and by creating proportionality between capital investments and the voting rights of all the shares in the company.</p> <p><b>1. Exercise of ownership and communication</b></p> <p>The shareholders can be motivated to exercise their rights and to use their influence if the board makes it as easy and costless as possible for the shareholders. It is recommended that the companies look into in which areas information technology can be used to improve the communication between the company and the shareholders, and between the individual shareholders in the company</p> <p><b>2. Restrictions on voting rights etc.</b></p> <p>It is not recommended to include provisions which contain voting rights differentiation restrict the number of votes which the individual shareholder can cast, or which restrict the number of shares which the individual shareholder may own in the company.</p> <p>If these restrictions are already part of a company's Articles, it is recommended that the board evaluates the expediency of this and accounts for its evaluation of whether a revocation of these restrictions is desirable and possible in the annual report.</p> <p><b>3. Preparation for the AGM including notice of meeting and authorisation</b></p> <p>It is recommended that the AGM is called with sufficient notice so that the shareholders are able to prepare for the meeting and decide on the issues which will be dealt with at the AGM. The notice of meeting, including the agenda, should be drawn up in such a way that the shareholders are provided with a satisfactory picture of the matters included in the points of the agenda. Authorisations given to a company's directors should be limited to one particular AGM and should, as far as possible, include the position of the shareholder regarding each point on the agenda.</p>
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## Committee's proposal for revised recommendations

### 4. Duties of the board and rights of the shareholders in the event of takeover bids

In the event of attempted takeovers, it is recommended that the shareholders are given the opportunity to decide if they wish to surrender their shares in the company on the conditions offered. Therefore, without the acceptance of the general meeting, or on its own, the supervisory board should refrain from countering a takeover bid by reaching decisions which in reality prevent the shareholders from deciding on the takeover bid. The decisions which are advised against include implementing capital increases or allowing the company to buy its own shares based on a previously announced authority for instance.

### II. The role of the stakeholders and their importance to the company

It is decisive for a company's prosperity and future possibilities that the company has a good relationship with its stakeholders. Stakeholders are everyone who are directly affected by the company's decisions and business. Thus, it is desirable that the company's management runs and develops the company with due consideration of its stakeholders, and that the management provides an incentive for a dialogue with these.

A successful interaction between the company and its stakeholders implies openness and mutual respect.

### 1. The company's policies in relation to the stakeholders

It is recommended that the supervisory board adopts a policy regarding the company's relationship with its stakeholders which, for instance, could include the company's business concept and its basic values and objectives. One element of such a policy could be the guidelines for the company's information about environmental and social issues, for example.

### 2. The role of the stakeholders and their interests

It is recommended that the supervisory board ensures that the interests and roles of the stakeholders are respected in accordance with the company's policy regarding this. As part of performing this, it is natural that the supervisory board ensures that there is an ongoing dialogue between the management and the company's stakeholders, in order to develop and strengthen the company.

### III. Openness and transparency

To various extents it is necessary to provide shareholders, including potential shareholders and other stakeholders, with information about the company. How they understand and relate to the company depends on the amount of information and the quality of the information published or provided by the company. Openness and transparency are essential conditions for ensuring that the company's shareholders and other stakeholders are able to continuously evaluate and relate to the company and its prospects, and through this, openness and transparency can contribute to a constructive interaction with the company.

### 1. Information and publication of information

It is recommended that the supervisory board adopts an information and communication policy. Furthermore, it is recommended that the company develops procedures which ensure that the company immediately publishes all essential information of importance for how the shareholders and the financial markets evaluate the company and its activities, as well as its business goals, strategies and results, unless publication can be omitted according to the legal rules of the stock exchange. The publication must be carried out in a reliable and adequate manner.

It is recommended that published information is both in Danish and in English, and if necessary, any other relevant languages and that it includes the use of the company's website. The company should have identical websites in Danish and English and any other languages if relevant.

## Nørby Committee's recommendations of December 2001

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In the event of attempted takeovers, it is recommended that the shareholders are given the opportunity to decide if they wish to surrender their shares in the company on the conditions offered. Therefore, without the acceptance of the AGM, or on its own, the board should refrain from countering a takeover bid by reaching decisions which in reality prevent the shareholders from deciding on the takeover bid. The decisions which are advised against include implementing capital increases or allowing the company to buy its own shares based on a previously announced authority for instance.

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It is recommended that published information is both in Danish and in English, and if necessary, any other relevant languages and that it includes the use of the company's homepage. The company should have identical homepages in Danish and English and any other languages if relevant.

## Committee's proposal for revised recommendations

### 2. Investor relations

It is recommended that the supervisory board ensures that the continuous dialogue between the company and the company's shareholders and potential shareholders is made flexible. This can be done in the following ways:

- by holding investor meetings.
- by continuously evaluating if information technology can be used to improve investor relations, including using part of the company's website to deal with corporate governance related issues.
- by making all investor presentations accessible on the Internet at the same time as they are made.

### 3. Annual report

The annual report must be presented according to the relevant Danish laws. Listed companies shall on a consolidated basis apply the international accounting standards IAS/IFRS as from 2005. Other accepted standards such as US-GAAP can be applied as supplements, if this is relevant in connection with trade conditions or other circumstances with regard to the information requirements of the recipients, including comparability facilitation.

### 4. Additional information

In connection with the preparation of the annual report it is recommended that the supervisory board decides if it is expedient that the company publishes further elaborating non-financial information, even in instances where this is not required by the Danish Financial Statements Act or any other laws. Such information could be information about the company's

- development and maintenance of internal knowledge resources.
- ethical and social responsibilities.
- health and safety policies.

### 5. Quarterly reports

It is recommended that companies use quarterly reports.

## IV. The tasks and responsibilities of the supervisory board

The supervisory board is responsible for carefully safeguarding the shareholders' interests, with due consideration of the other stakeholders. As concerns the managerial division of tasks between the supervisory board and the executive board, the supervisory board is assigned with, and responsible for, handling the overall management of the company, as well as supervising and establishing the guidelines for the executive board's work. One important management task is to develop and establish appropriate strategies for the company. It is important that the supervisory board ensures that there is continuous development and follow-up on the necessary strategies in collaboration with the executive board.

### 1. The overall tasks and responsibilities of the supervisory board

The supervisory board must handle the overall strategic management and the financial and the managerial supervision of the company and continuously evaluate the executive board's work. The supervisory board's most essential tasks include:

- establishing the overall goals and strategies and following up on these.
- ensuring clear guidelines for responsibility, distribution of responsibilities, planning and follow-up, as well as risk management.
- appointing a qualified executive board, establish the managers' conditions of employment, including preparing guidelines for the appointment and composition of the executive board, as well as ensuring that the remuneration of the executives reflects the results they achieve.
- ensuring that relations to the company's stakeholders are good and constructive.

## Nørby Committee's recommendations of December 2001

### 2. Investor relations

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- by continuously evaluating if information technology can be used to improve investor relations, including using part of the company's homepage to deal with corporate governance related issues.
- by making all investor presentations accessible on the Internet at the same time as they are made.

### 3. Company report

The company report must be presented according to the relevant Danish laws, and it is recommended that the board considers applying International Accounting Standards (IAS). Other accepted standards such as US-GAAP can be applied as supplements, if this is relevant in connection with trade conditions or other circumstances with regard to the information requirements of the recipients, including comparability facilitation.

### 4. Additional information

In connection with the preparation of the annual report it is recommended that the board decides if it is expedient that the company publishes further elaborating non-financial information, even in instances where this is not required by the Danish Company Accounts Act or any other laws. Such information could be information about the company's

- impact on the external environment.
- development and maintenance of internal knowledge resources.
- ethical and social responsibilities.
- health and safety policies.

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## IV. The tasks and responsibilities of the board

The board is responsible for carefully safeguarding the shareholders' interests, with due consideration of the other stakeholders. As concerns the managerial division of tasks between the board and the management, the board is assigned with, and responsible for, handling the overall management of the company, as well as supervising and establishing the guidelines for the management's work. One important management task is to develop and establish appropriate strategies for the company. It is important that the board ensures that there is continuous development and follow-up on the necessary strategies in collaboration with the management.

### 1. The overall tasks and responsibilities of the board

The board must handle the overall strategic management and the financial and the managerial supervision of the company and continuously evaluate the management's work. The board's most essential tasks include:

- establishing the overall goals and strategies and following up on these.
- ensuring clear guidelines for responsibility, distribution of responsibilities, planning and follow-up, as well as risk management.
- appointing a qualified management, establish the managers' conditions of employment, including preparing guidelines for the appointment and composition of the management, as well as ensuring that the remuneration of the managers reflects the results they achieve.
- ensuring that relations to the company's stakeholders are good and constructive.

## Committee's proposal for revised recommendations

### 2. The chairman's tasks

The chairman is especially responsible for ensuring that the supervisory board functions satisfactorily and that the tasks of the supervisory board are handled in the best possible way. In this connection, it is recommended that the chairman ensures that the individual member of the supervisory board's particular knowledge and competence are used as best as possible in the supervisory board work for the benefit of the company. The supervisory board's frequency of meeting is planned in such a way that the supervisory board acts as an active sparring partner to the executive board and is able to react quickly and efficiently at all times.

It is recommended that the company appoints a deputy chairman. The deputy chairman must be able to act in the chairman's absence and in addition be an efficient sparring partner to the chairman. The chairman should try to ensure that the board's negotiations take place when all the members of the supervisory board are present and that all essential decisions are made when all the members of the supervisory board are present.

It is recommended that the company prepares a work and task description containing a description of the tasks, duties and responsibilities of the chairman, and the deputy chairman, if required.

### 3. Procedures

It is essential that the procedures of the supervisory board are an efficient and functional tool for solving the supervisory board's tasks. It is recommended that the procedures are always adjusted to the requirements of the individual company, and that all the members of the supervisory board review the procedures with regard to ensuring this at least once a year.

### 4. Information from the executive board to the supervisory board

It is recommended that the supervisory board establish procedures for how the executive board reports to the supervisory board and for any other communication between the supervisory board and the executive board. This will ensure that the supervisory board is provided with the information about the company's business which the supervisory board requires on a continuous basis. In all circumstances the executive board must ensure that the supervisory board is provided with essential information, whether the supervisory board has requested it or not.

### V. Composition of the supervisory board

It is essential that the supervisory board is composed in a such a manner that it is capable of handling its managerial tasks, including the strategic tasks of the company in a efficient and forward looking manner, and that it acts as a constructive and qualified sparring partner for the executive board at the same time. It is also essential that the members of the supervisory board always act independently of special interests. The supervisory board must continuously ensure that its composition and its procedures reflect the demands posed by the company's current situation and circumstances.

### 1. Recruitment and election of members of the supervisory board

It is recommended that the supervisory board ensures that the candidates for the supervisory board, who are nominated by the supervisory board, have the relevant and necessary knowledge and professional experience in relation to the requirements of the company, including the necessary international background and experience if this is relevant. The supervisory board should ensure a formal, thorough and transparent nomination process. Moreover, the supervisory board should ensure that a given board composition as a whole will provide the supervisory board with the skills that are necessary for the supervisory board to be able to perform its tasks in the best possible way.

## Nørby Committee's recommendations of December 2001

### 2. The chairman's tasks

The chairman is especially responsible for ensuring that the board functions satisfactorily and that the tasks of the board are handled in the best possible way. In this connection, it is recommended that the chairman ensures that the individual director's particular knowledge and competence are used as best as possible in the board work for the benefit of the company. The board's frequency of meeting is planned in such a way that the board acts as an active sparring partner to the management and is able to react quickly and efficiently at all times.

It is recommended that the company appoints a deputy chairman. The deputy chairman must be able to act in the chairman's absence and in addition be an efficient sparring partner to the chairman. The chairman should try to ensure that the board's negotiations take place when all the directors are present and that all essential decisions are made when all the directors are present.

It is recommended that the company prepares a work and task description containing a description of the tasks, duties and responsibilities of the chairman, and the deputy chairman, if required.

### 3. Procedures

It is essential that the procedures of the board are an efficient and functional tool for solving the board's tasks. It is recommended that the procedures are always adjusted to the requirements of the individual company, and that all the directors review the procedures with regard to ensuring this at least once a year.

### 4. Information from the management to the board

It is recommended that the board establish procedures for how the management reports to the board and for any other communication between the board and the management. This will ensure that the board is provided with the information about the company's business which the board requires on a continuous basis. In all circumstances the management must ensure that the board is provided with essential information, whether the board has requested it or not.

### V. Composition of the board

It is essential that the board is composed in a such a manner that it is capable of handling its managerial tasks, including the strategic tasks of the company in a efficient and forward looking manner, and that it acts as a constructive and qualified sparring partner for the management at the same time. It is also essential that the directors always act independently of special interests. The board must continuously ensure that its composition and its procedures reflect the demands posed by the company's current situation and circumstances.

### 1. Recruitment and election of directors

It is recommended that the directors ensure that the candidates for the board, who are nominated by the directors, have the relevant and necessary knowledge and professional experience in relation to the requirements of the company, including the necessary international background and experience if this is relevant. When nominating the individual candidates, the directors should ensure that a given board composition as a whole will provide the board with the skills that are necessary for the board to be able to perform its tasks in the best possible way.

## Committee's proposal for revised recommendations

It is recommended that the supervisory board encloses a description of the nominated candidates' background in the notice of the general meeting when the election of the members of the supervisory board is on the agenda. At the same time, the supervisory board should state the recruitment criteria which the supervisory board has established, including the requirements of professional qualifications, international experience etc. which, in the opinion of the supervisory board, represent essential qualities with regard to the supervisory board. The owners of the company should be given an opportunity to discuss these criteria. Also, other executive functions of the candidates in other Danish or foreign companies and organisations should be disclosed.

### 2. Training and introduction for members of the supervisory board

When new members of the supervisory board join the supervisory board it is recommended that they are given an introduction to the company and that the chairman, in collaboration with the individual supervisory board member, decides if it is necessary to offer the member in question any relevant, supplementary training. The training, which can also be offered continuously, should be adjusted to the individual supervisory board member's needs and should ensure that each of the members of the supervisory board are capable of:

- taking part in a qualified dialogue with the executive board about the company's strategic development and prospects.
- acquiring and keeping an overview of the company's core areas, activities and the conditions of the industry in question.
- actively participating in the supervisory board work.

In addition, the members of the supervisory board are solely responsible for actively obtaining knowledge and continuously keeping themselves posted about the conditions of the company and the industry in question.

### 3. The number of supervisory board members

It is important that the supervisory board has a size which allows for a constructive debate and an efficient decision process, in which it is possible for all the members of the supervisory board to play an active part. Against this background it is recommended that the supervisory board consists of no more than six members elected by the general meeting. The supervisory board must consider if the number of supervisory board members is appropriate in relation to the requirements of the company on an on-going basis.

### 4. The supervisory board's independence

It is important that the supervisory board is composed in such a way that its members can act independently of special interests. Therefore, it is recommended that the majority of the members of the supervisory board elected by the general meeting are independent. In this context an independent supervisory board member elected by the general meeting cannot:

- be an employee in the company or be someone who has been employed in the company in the past five years.
- have been a member of the executive board of the company.
- be a professional consultant to the company or be employed by, or have a financial interest in, a company which is a professional consultant to the company.
- have some other essential strategic interest in the company other than that of a shareholder.

We cannot recommend that members of the executive board of a company are also members of the supervisory board of the company. This also applies to situation in which major shareholders are executives of a company as well as supervisory board members at the same time. In companies with one major shareholder, the supervisory board should pay special attention to the safeguarding of the other shareholders' interests on equal terms with the major shareholder's interests at all times.

## Nørby Committee's recommendations of December 2001

It is recommended that the board enclose a description of the nominated candidates' background in the notice of the AGM when the election of the directors is on the agenda. At the same time, the board should state the recruitment criteria which the board has established, including the requirements of professional qualifications, international experience etc. which, in the opinion of the board, represent essential qualities with regard to the board.

### 2. Training and introduction for directors

When directors join the board it is recommended that they are given an introduction to the company and that the chairman, in collaboration with the individual director, decides if it is necessary to offer the director in question any relevant, supplementary training. The training, which can also be offered continuously, should be adjusted to the individual director's needs and should ensure that each of the directors are capable of:

- taking part in a qualified dialogue with the management about the company's strategic development and prospects.
- acquiring and keeping an overview of the company's core areas, activities and the conditions of the industry in question.
- actively participating in the board work.

In addition, the directors are solely responsible for actively obtaining knowledge and continuously keeping themselves posted about the conditions of the company and the industry in question.

### 3. The number of directors

It is important that the board has a size which allows for a constructive debate and an efficient decision process, in which it is possible for all the directors to play an active part. Against this background it is recommended that the board consists of no more than six directors elected by the general meeting. The board must consider if the number of directors is appropriate in relation to the requirements of the company on an on-going basis.

### 4. The board's independence

It is important that the board is composed in such a way that its directors can act independently of special interests. Therefore, it is recommended that the majority of the directors elected by the general meeting are independent. In this context an independent director elected by the general meeting cannot:

- be an employee in the company or be someone who has been employed in the company in the past five years.
- have been a member of the management of the company.
- be a professional consultant to the company or be employed by, or have a financial interest in, a company which is a professional consultant to the company.
- have some other essential strategic interest in the company other than that of a shareholder.

We cannot recommend that managers of a company are also directors of the company. This also applies to situation in which major shareholders are managers of a company as well as directors at the same time. In companies with one major shareholder, the board should pay special attention to the safeguarding of the other shareholders' interests on equal terms with the major shareholder's interests at all times.

## Committee's proposal for revised recommendations

It is recommended that the annual report contains the following information about the supervisory board members elected by the general meeting:

- the supervisory board member's occupation.
- the supervisory board member's other managerial positions or directorships in Danish as well as foreign companies and organisations.
- how many shares, options and warrants the supervisory board member owns in the company and in affiliated companies and the changes in the supervisory board member's portfolio of the mentioned securities which have taken place during the accounting year.

### 5. Staff-elected members of the supervisory board

Supervisory board members elected by the staff have the same rights, obligations and duties as the supervisory board members elected by the general meeting. By virtue of their employment by the company they are not independent. It is recommended that each company considers the need to explain the system regarding staff-elected members of the supervisory board in the annual report, on the company's website or otherwise, which will particularly be relevant to ensure foreign investors' understanding of the importance and function of such system.

### 6. Meeting frequency

It is recommended that the supervisory board meets regularly according to a pre-prepared meeting and work schedule and when a meeting seems necessary or appropriate in the light of the company's requirements. The annual meeting frequency should be published in the annual report.

### 7. Time allocated to supervisory board work and the number of supervisory board seats

It is important that the individual member of the supervisory board understands what time requirements the supervisory board work places on him in advance and that he allocates sufficient time for his tasks on the supervisory board. It is recommended that a supervisory board member who is also a member of the executive team of an active company does not hold more than three ordinary supervisory board seats or one chairmanship and one ordinary supervisory board seat in companies which are not part of the group, except in exceptional circumstances.

### 8. Retirement age

The annual report should contain information about the age of the individual members of the supervisory board. It is recommended that the company fixes a retirement age for members of the supervisory board.

### 9. Election period

It is recommended that members of the supervisory board are up for (re)election each year at the general meeting.

Continuity should be maintained through the replacement of the supervisory board. The annual report should state when the member of the supervisory board joined the board, if the member of the supervisory board has been reelected and when the new election period expires. It is recommended that the company fixes a period after which the chairman and the other members of the supervisory board no longer can be elected or reelected.

If a supervisory board member's conditions of employment change during an election period he should inform the other members of the supervisory board of this and be prepared to make his mandate available at the next general meeting.

## Nørby Committee's recommendations of December 2001

It is recommended that the annual report contains the following information about the directors elected by the general meeting:

- the director's occupation.
- the director's other managerial positions or directorships in Danish as well as foreign companies.
- how many shares, options and warrants the director owns in the company and in affiliated companies and the changes in the director's portfolio of the mentioned securities which have taken place during the accounting year.

### 5. Meeting frequency

It is recommended that the board meets regularly according to a pre-prepared meeting and work schedule and when a meeting seems necessary or appropriate in the light of the company's requirements. However, it is recommended that the board holds at least five ordinary meetings a year. The annual meeting frequency should be published in the annual report.

### 6. Time allocated to board work and the number of directorships

It is important that the individual director understands what time requirements the board work places on him in advance and that he allocates sufficient time for his tasks on the board. It is recommended that a director who is also a member of the management team of an active company does not fill more than three ordinary directorships or one chairmanship and one ordinary directorship in companies which are not part of the group, except in exceptional circumstances.

### 7. Retirement age

The annual report should contain information about the age of the individual directors. It is recommended that directors retire from the board in the year they turn 70 at the latest.

### 8. Election period

It is recommended that directors are elected to the board for a period of no more than three years at a time and that the board organises the election periods for the individual directors elected by general meeting in such a way that continuity is maintained through the replacement of the board. The annual report should state when the director joined the board, if the director has been reelected and when the new election period expires. Reelection of the chairman and the other directors for a period of more than nine years cannot be recommended.

If a director's conditions of employment change during an election period he should inform the other directors of this and be prepared to make his mandate available at the next AGM.

## Committee's proposal for revised recommendations

### 10. Use of board committees

Whether a board committee should be established depends on the specific conditions of each company, including the size and modus operandi of the supervisory board and the size and complexity of the company. If the supervisory board appoints a committee, this should only be done in connection with matters regarding limited subjects in order to prepare decisions that must be reached by all of the members of the supervisory board. It is important that the supervisory board ensures that the appointment of a board committee does not result in important information directed at all members of the supervisory board only reaching the board committee. The supervisory board must disclose whether it has chosen to use board committees in the annual report and, if so, the reason why. Moreover, the company may benefit from disclosing essential items of the rules of procedure of the board committee as well as the names of the members.

### 11. Self-assessment of the supervisory board's work

We recommend that the supervisory board establishes an assessment process which continuously and systematically evaluates the work, results and composition of the supervisory board and the individual board members, including the chairman, in order to improve the supervisory board's work. In this connection, the criteria of the evaluation should be clearly specified. When assessing the supervisory board as a whole, there is a clear need to evaluate to what extent previously established strategic goals and plans have been realised. It will be appropriate to carry out the assessment once a year and the chairman will be responsible for this, and if necessary, with external help. The result will be discussed by the entire supervisory board. Furthermore, it is recommended that the supervisory board states the procedures of the supervisory board's self-assessment in the annual report.

### 12. Assessment of the executive board's work

It is recommended that the supervisory board evaluates the executive board's work and results according to already established explicit criteria once a year.

### 13. Assessment of the collaboration between the supervisory board and the executive board

It is recommended that the executive board and the supervisory board establish a procedure by which the collaboration between the supervisory board and the executive board is assessed in an annual meeting between the CEO and the chairman of the supervisory board. The result of the assessment should be presented to the entire supervisory board.

## VI. Remuneration to the members of the supervisory board and the executive board

A competitive remuneration is a prerequisite for attracting and keeping competent supervisory board members and executives. The remuneration to the supervisory board members and the executives should be reasonable in connection with the assigned tasks and the responsibilities which are connected with solving these tasks.

Performance-related pay may result in conflicting interests between the shareholders and the executives, and may lead to the executives focusing on increasing the value creation of the company.

It is important that there is openness about all important issues regarding the principles and size of the total remuneration to the members of the supervisory board and the executive board.

### 1. Remuneration

It is recommended that the total remuneration (basic pay, bonus, price-related incentive schemes, pension, severance pay and other benefits) is at a competitive and fair level and reflects the executives' and supervisory board members' independent achievements and value creation in the company.

## Nørby Committee's recommendations of December 2001

### 9. Use of board committees

Most company boards are not so large that they require the establishment of board committees in order to be able to manage their tasks, and therefore appointments of board committees cannot be recommended in general. However, if the board is very large, or in the event of other specific circumstances, the board must consider if it is necessary to establish board committees. As a rule, if the board appoints a committee, this should only be done in order to prepare decisions that must be reached by all of the directors. It is important that the board ensures that the appointment of a board committee does not result in important information directed at all directors only reaching the board committee. The board must account for why it has chosen to use board committees in the annual report.

### 10. Self-assessment of the board's work

We recommend that the board establishes an assessment process which continuously and systematically evaluates the work, results and composition of the board and the individual directors, including the chairman, in order to improve the board's work. In this connection, the criteria of the evaluation should be clearly specified. When assessing the board as a whole, there is a clear need to evaluate to what extent previously established strategic goals and plans have been realised. It will be appropriate to carry out the assessment once a year and the chairman will be responsible for this, and if necessary, with external help. The result will be discussed by the entire board. Furthermore, it is recommended that the board states the procedures of the board's self-assessment in the annual report.

### 11. Assessment of the management's work

It is recommended that the board evaluates the management's work and results according to already established explicit criteria once a year.

### 12. Assessment of the collaboration between the board and the management

It is recommended that the management and the board establish a procedure by which the collaboration between the board and the management is assessed in an annual meeting between the managing director and the chairman of the board. The result of the assessment should be presented to the entire board.

## VI. Remuneration to the directors and the managers

A competitive remuneration is a prerequisite for attracting and keeping competent directors and managers. The remuneration to the directors and the managers should be reasonable in connection with the assigned tasks and the responsibilities which are connected with solving these tasks.

Performance-related pay may result in conflicting interests between the shareholders and the managers, and may lead to the managers focusing on increasing the value creation of the company. It is important that there is openness about all important issues regarding incentive schemes.

## Committee's proposal for revised recommendations

### 2. Openness about remuneration

It is recommended that the annual report contains information on the principles and size of the total remuneration to the members of the supervisory board and the executive board.

### 3. Principles of establishing incentive schemes

The supervisory board establishes the principles and the guidelines for the preparation of any incentive schemes for the company's executives and supervisory board members, and concerning the latter, with regard to their acceptance at the general meeting. It is recommended that the total remuneration is competitive and reasonable and that it reflects how the executives and supervisory board members have performed independently, as well as how much value they have created for the company. Likewise, incentive schemes should reflect the interests of the shareholders and the company, be adjusted to the company's specific circumstances and be reasonable in relation to the tasks and the responsibilities of the executives and supervisory board members.

The remuneration for the members of the supervisory board may consist of incentive schemes, including bonus schemes and shares at market price, but we cannot recommend that it consists of share option schemes.

If the remuneration for the executives consists of share or subscription options, we recommend that the schemes are set up as roll-over schemes (i.e. the options are allocated and expire over a number of years) and that the redemption price is higher than the market price at the time of the allocation. Moreover, the schemes should be set up in a way that promotes long-term behaviour and they should be transparent, as well as clearly understandable to outsiders. Valuation should be made according to generally accepted methods.

### 4. Openness and transparency regarding performance-related pay based on shares

We recommend that all important issues regarding performance-related pay based on shares are published in the company's annual report, including who receives it and what the total for the executives and the supervisory board members amounts to. Likewise, information about the incentive remuneration based on shares to the individual member of the supervisory board or executive should also be published in the company's annual report.

### 5. Severance schemes for the members of the executive board

It is recommended that the most important contents of the severance schemes shall be disclosed in the company's annual report.

## Nørby Committee's recommendations of December 2001

### 1. Principles of establishing incentive schemes

The board establishes the principles and the guidelines for the preparation of any incentive schemes for the company's managers and directors, and concerning the latter, with regard to their acceptance at the AGM. It is recommended that the total remuneration is competitive and reasonable and that it reflects how the managers and the directors have performed independently, as well as how much value they have created for the company. Likewise, incentive schemes should reflect the interests of the shareholders and the company, be adjusted to the company's specific circumstances and be reasonable in relation to the tasks and the responsibilities of the managers and the directors.

The remuneration for the directors may consist of incentive schemes, including bonus schemes and shares at market price, but we cannot recommend that it consists of share option schemes.

If the remuneration for the managers consists of share or subscription options, we recommend that the schemes are set up as roll-over schemes (i.e. the options are allocated and expire over a number of years) and that the redemption price is higher than the market price at the time of the allocation. Moreover, the schemes should be set up in a way that promotes long-term behaviour and they should be transparent, as well as clearly understandable to outsiders.

### 2. Openness and transparency regarding performance-related pay based on shares

We recommend that all important issues regarding performance-related pay based on shares are published in the company's annual report, including who receives it and what the total for the managers and the directors amounts to. Likewise, information about the incentive remuneration based on shares to the individual director or manager should also be published in the company's annual report.

### 3. Redundancy schemes for the managers

It is recommended that any redundancy schemes for a manager be reasonable and reflect the results the individual manager has achieved, the cause of the resignation and the manager's responsibilities, as well as the remuneration which the manager in question has received. Information about the most important contents of the redundancy scheme should be published in the company's annual report.

## Committee's proposal for revised recommendations

### VII. Risk management

Efficient risk management is a prerequisite for the supervisory board being able to perform the tasks for which it is responsible in the best possible way. Thus it is important that the supervisory board ensures that there are appropriate systems for risk management in place and, moreover, ensures that such systems meet the requirements of the company at any time.

#### The purpose of risk management is:

- to develop and maintain an understanding within the organisation of the company's strategic and operational goals, including identification of the critical success factors for achieving goals.
- to analyse the possibilities and challenges which are connected with the realisation of the above goals and to analyse the risk of these goals not being met.
- to analyse the most important activities of the company in order to identify the risks attached hereto.
- to determine the venture spirit of the company.

#### 1. Identification of risks

When formulating the company's strategy and overall goals, it is recommended that the supervisory board and executive board identify the greatest business risks involved in the realisation hereof.

#### 2. Plan for risk management

It is recommended that the executive board on the basis of the identified risks prepares a plan for the company's risk management and submits it for supervisory board approval. The executive board should currently report to the supervisory board so that the supervisory board can systematically follow the development in significant risk areas. The report may, among other things, contain procedures and action plans that can eliminate, reduce, divide or accept these risks.

#### 3. Openness

It is recommended that the company's annual report contains information about the company's risk management activities.

## Nørby Committee's recommendations of December 2001

### VII. Risk management

Efficient risk management is a prerequisite for the board being able to perform the tasks for which it is responsible in the best possible way. Thus it is important that the board ensures that there are appropriate systems for risk management in place and, moreover, ensures that such systems meet the requirements of the company at any time.

#### 1. Risk management

The purpose of risk management is:

- to develop and maintain an understanding within the organisation of the company's strategic and operational goals, including identification of the critical success factors.
- to analyse these possibilities and challenges which are connected with the realisation of the above goals and to analyse the risk of these goals not being met.
- to analyse the most important activities of the company in order to identify the risks attached hereto.

Risk management also focuses on procedures for damage control, the formation of contracts, safety at work, environmental issues and safeguarding physical values. It is recommended that the board ensures that the management establish efficient risk management systems and that the board continuously follows up on these in order to ensure that they always work efficiently in the light of the company's requirements. As required, but at least once a year, the board should evaluate the company's risk management and by establishing the risk policy, decide on the company's risk-taking including insurance, currency and investment policies.

The risk management system must define the risk and describe how this risk is eliminated, controlled or hedged on a continuous basis.

In that connection the board should consider how any collaboration with the company's external audit could contribute to the risk management, and to what extent the internal audit could be part of the risk management.

<p><b>VIII. Audit</b></p> <p>Ensuring a competent and independent audit is an essential element of the supervisory board's work. It is recommended that the contractual basis and thus the framework of the auditor's work is determined by the supervisory board.</p> <p><b>1. The supervisory board's nomination of auditor-candidate</b> The supervisory board should in consultation with the executive board make a specific and critical assessment of the auditor's independence and competence, etc to be used in connection with the presentation of the nomination at the general meeting.</p> <p><b>2. The agreement with the auditor</b> The auditor agreement and the auditor's fee should be agreed between the company's supervisory board and the auditor.</p> <p><b>3. Non-auditor services</b> The supervisory board should adopt an overall, general framework for the auditor's provision of non-auditor services with a view to ensuring the auditor's independence, etc.</p> <p><b>4. Internal control systems</b> The supervisory board should at least once a year review and assess the internal control systems within the company as well as the management's guidelines for and monitoring of such systems.</p> <p><b>5. Accounting policies and accounting estimates</b> When the supervisory board reviews the annual report (or a draft of the annual report) together with the auditor the accounting policies and accounting estimates should be discussed. The expediency of the chosen accounting policies should be considered.</p> <p><b>6. Result of the audit</b> The result of the audit should be discussed at meetings with the supervisory board in order to review the auditor's observations and opinion, possibly based on a draft of the long-form audit report.</p> <p><b>7. Audit committee</b> In companies with complex accounting and audit conditions the supervisory board should consider establishing an audit committee to assist the board in matters of accounting and audit questions.</p>	
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Country / Organisation	Name	(Head)sponsor	Year of publication / last amended
Australia	Principles of Good Corporate Governance and Best Practice Recommendations	ASX Corporate Governance Council	March 2003
Belgium	Corporate Governance for Belgian listed companies	Belgian Corporate Governance Commission (an initiative of the Brussels Stock Exchange) and the Commission Bancaire et Financière	December 1998
Brazil	Recomendações sobre Governança Corporativa	Comissão de Valores Mobiliários (CVM)	June 2002
Canada	Proposed New Disclosure Requirement and Amended Guidelines (draft)	Toronto Stock Exchange	March 2002
Commonwealth	Principles of Best Business Practice for the Commonwealth	Commonwealth Association for Corporate Governance (CACG)	November 1999
Cyprus	Corporate Governance Code	Cyprus Stock Exchange	March 2003
Finland	Corporate Governance Recommendation for listed Companies	HEX, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers	December 2003
France	The Corporate Governance of Listed Corporations: Principles for Corporate Governance based on consolidation of the 1995, 1999 and 2002 AFEP and MEDEF's reports	Association Française des Entreprises Privées (AFEP) and MEDEF (French Business Confederation)	October 2003
Greece	Principles of Corporate Governance	Federation of Greek Industries	July 2001
Holland	Draft Corporate Governance Code	Corporate Governance Committee chaired by Mr Morris Tabaksblat	July 2003
Hong Kong	Model Code for Securities Transactions by Directors of Listed Companies: Basic Principles	Hong Kong Stock Exchange Listing Requirements, Appendix 10	June 2001
India	Report of the Kumar Mangalam Birla Committee on Corporate Governance	Committee Appointed by the Securities and Exchange Board of India (SEBI) on Corporate Governance under the Chairmanship of Shri Kumar Mangalam Birla	February 2000
Indonesia	Code for Good Corporate Governance	The National Committee on Corporate Governance	March 2001
Ireland	Corporate Governance, Share Option and Other Incentive Schemes	Irish Association of Investment Managers	March 1999
Italy	Corporate Governance Code (il Codice di Auto-disciplina delle società quotate rivisitato)	Committee for the Corporate Governance of Listed Companies, Borsa Italiana	July 2002
Japan	Revised Corporate Governance Principles	Japan Corporate Governance Forum	October 2001
Kenya	Principles for Corporate Governance in Kenya	Private Sector Initiative for Corporate Governance	
Korea	Code of Best Practice for Corporate Governance	Committee on Corporate Governance	September 1999
Macedonia	White Paper on Corporate Governance in South-Eastern Europe (Macedonian Version)	Macedonia Corporate Governance and Company Law Project	July 2003
Malaysia	Malaysian Code on Corporate Governance	Securities Commission Malaysia	March 2000
Malta	Principles of Good Corporate Governance	Malta Stock Exchange	October 2001
Mexico	Código de Mejores Prácticas Corporativas	Mexican Stock Exchange, the Mexican Bankers' Association, the Mexican Institute of Finance Executives and the Mexican Institute of Public Accountants	July 1999

Norway	Corporate Governance Recommendations	Aksjonærforeningen i Norge, Eierforum, Finansnærings Hovedorganisasjon, Norske Finansanalytikers Forening, Næringslivets Hovedorganisasjon, Norske Pensjonskassers Forening, Oslo Børs, Verdipapirfondenes Forening	December 2003
OECD	OECD Principles of Corporate Governance	Organisation for Economic Co-operation and Development	May 1999
Pakistan	Code of Corporate Governance (Revised)	The Securities and Exchange Commission of Pakistan	March 2002
Peru	Principios de Buen Gobierno para las Sociedades Peruanas	Comisión Nacional Supervisora de Empresas y Valores ("CONASEV")	July 2002
Poland	Best Practices in Public Companies in 2002	The Best Practices Committee at Corporate Governance Forum	July 2002
Portugal	Recommendations on Corporate Governance	Comissão do Mercado de Valores Mobiliários	November 1999
Romania	Corporate Governance Code in Romania		
Russia	The Russian Code of Corporate Conduct	The Co-ordination Council for Corporate Governance	April 2002
Switzerland	Corporate Governance: Swiss Code of Best Practice	Swiss Business Federation	July 2002
Singapore	Code of Corporate Governance	Corporate Governance Committee, Council on Corporate Disclosure and Governance (CCDG)	March 2001
Slovakia	Corporate Governance Code (Based on the OECD Principles)	Bratislava Stock Exchange (Prepared with the assistance of The British-Slovak Action Plan & DFID)	September 2002
Spain	The Aldama report - Informe de la Comisión Especial para el Fomento de la Transparencia y Seguridad en los Mercados y en las Sociedades Cotizadas		January 2003
Sweden	Corporate Governance Policy – guidelines for better control and transparency for owners of companies quoted on the Swedish stockmarket	Sveriges Aktiesparares Riksförbund (The Swedish Shareholders' Association)	October 2001
South Africa	King Report on Corporate Governance for South Africa - 2002 (King II Report)	Institute of Directors in Southern Africa	March 2002
Czech Republic	Revised Corporate Governance Code (Based on the OECD Principles)	Czech Securities Commission	February 2001
Turkey	Corporate Governance Principles	The Capital Markets Board of Turkey	July 2003
Germany	Amendments to the Cromme Code	Government Commission German Corporate Governance Code	May 2003
UK	The Combined Code on Corporate Governance	The Financial Reporting Council (FRC)	July 2003
Austria	Österreichischer Corporate Governance Kodex (Austrian Code of Corporate Governance)	Österreichischer Arbeitskreis für Corporate Governance	September 2002

Source: [www.ecgi.org](http://www.ecgi.org)

The codes of conduct of Norway and Finland are not included on [www.ecgi.org](http://www.ecgi.org) at present.

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