Danish Recommendations on Corporate Governance

Danish Committee on Corporate Governance

2 December 2020

CORPORATE GOVERNANCE

Contents

Preface

The aim of corporate governance is to advance a responsible corporate management culture that creates value. The Danish Committee's Recommendations on Corporate Governance are mainly aimed at ensuring long-term value creation and shareholder return through transparent management processes and by the exchange of high-level information between management and shareholders creating confidence and trust in the companies from shareholders, investors, relevant stakeholders and the society. The Committee's recommendations provide "best practice" guidelines to companies with shares admitted to trading on a regulated market in Denmark, i.e. Nasdaq Copenhagen A/S. The way companies work with and report on corporate governance varies from company to company.

The recommendations supplement Danish law - particularly the Danish Companies Act, the Danish Financial Statements Act, EU corporate law rules and the OECD Principles of Corporate Governance.

In 2020, the Committee updated its recommendations issued in 2017 in order to, inter alia, reflect the implementation of the Shareholder Rights Directive II in Denmark. Companies and relevant professional organizations, with which the Committee has been in contact, expressed the wish for fewer but more relevant recommendations. Therefore, the Committee has to the extent possible omitted recommendations to avoid overlap with existing Danish law or generally accepted corporate practice. This has in particular had an impact on the recommendations on remuneration as the Shareholder Rights Directive II has rendered a number of recommendations on remuneration superfluous.

The updated recommendations replaces the Committee's recommendations dated 23 November 2017 and will enter into force as of the financial year starting 1 January 2021 or thereafter, and as a result, the first reporting based on these recommendations must be submitted in connection with the annual financial reporting in 2022.

The Committee is aware that it may take companies time to implement some of the new recommendations. Therefore, the Committee would like to highlight the fact that a company is considered to be compliant if the company, when stating that it does not comply with a given recommendation, provides an explanation regarding the alternative approach taken by the company and the reasoning behind.

Copenhagen, 2 December 2020

The Danish Committee on Corporate Governance

Introduction

1. The Committee's work

The Committee monitors trends and developments of corporate governance in Denmark and internationally, while maintaining continuity in its corporate governance approach. In addition, the Committee collects input (viewpoints and experience) from stakeholders on a regular basis to adjust the recommendations and ensure they are suitable and relevant for Danish companies and remain consistent with applicable law as well as recognized best practice.

The Danish FSA, the Danish Business Authority and Nasdaq Copenhagen A/S ("Nasdaq") supervise the companies. Nasdaq annually reviews all listed companies' statutory reports on corporate governance. In connection with this review, the Committee and Nasdaq collaborate to identify key developments, trends and topics that require further guidance. The results of this review are subsequently set out in an annual report prepared by the Committee, which is published on the Committee's website (corporategovernance.dk).

In connection with the update of the recommendations, the Committee revised the introductions to each of the five sections of the recommendations, so that they now outline certain general principles within each of the five areas. Such principles seek to explain the importance and relevance of the recommendations within each area and general reflections which companies may take into account when assessing which approach to take in respect of the individual recommendations under each section.

In addition, the Committee has updated the previously provided reporting template to make it more user-friendly and informative.

As the Committee has done in the past, explanatory notes are provided under some of the recommendations to guide companies in implementing the recommendations. In addition, supplementary information is provided in the Committee's guidelines as well as in the frequently asked questions/answers, which are available on the Committee's website. This additional information is provided for illustrative purposes only. Companies shall not consider compliance with the introductory principles, explanatory notes, supplementary guidelines or the frequently asked questions/answers when preparing their reports.

2. Target group

The Committee's recommendations are aimed at Danish companies with shares admitted to trading on a regulated market in Denmark.

Other corporate entities, e.g. state-owned companies, corporate entities with a special public interest and corporate entities owned by foundations or privately owned corporate entities can also draw inspiration from these recommendations when setting their own corporate governance standards.

The recommendations also apply to financial institutions with shares admitted to trading on a regulated market in Denmark. Although these financial institutions are subject to special laws and regulations, the Committee has not prepared specific recommendations for the financial sector as such.

3. Soft law and its implications

The Committee's recommendations are considered soft law and are thus not binding and more easily adaptable than positive law (i.e. hard law). Whereas hard law typically describes a minimum standard framework for corporate conduct and originates from a legislative body, soft law reflects "best practice". Soft law is characterized by its voluntary nature and its ability to easily adapt to trends and developments in society. When managed effectively, soft law may further contribute to not adopt hard law in certain areas where greater flexibility to adjust to ongoing developments and trends in the society is required on an ongoing basis.

The Committee believes that implementing guidelines through soft law is the most efficient way of establishing trust among the company and its stakeholders without hindering how companies want to operate their business. Danish companies operate across different industries, geographic areas and are faced with different challenges in conducting their operations. Therefore, in respect of corporate governance, one-size-fits-all solution is not necessarily useful for all companies. The flexibility of the recommendations enables companies to individualize its implementation of the guidelines in a way best suited to their business and industry instead of being bound by hard law.

4. Reporting and the comply or explain approach

The comply and explain approach is a key element in these recommendations and is also reflected in section 107 b of the Danish Financial Statements Act and Nasdaq's rules for issuers (the so-called Main Market Rulebook).

These rules imply that the company must prepare a corporate governance statement, which must be published by the company in the management commentary of the annual report or on the company's website with specific reference in the management commentary.

Each company must in the corporate governance statement give an account of which recommendations the company has chosen to comply with and which ones they have not. The statement must consider each recommendation individually, regardless of whether the company complies with or deviates from the recommendation. A company may thus be compliant if the company instead of complying with a recommendation specifically explains:

- why the company has decided not to comply with the recommendation, and
- which approach the company has chosen instead.

The company’s explanation should create the necessary transparency on the specific matter.

As stated above, a template reporting form is available on the Committee's website, corporategovernance.dk, which companies may use for reporting. The Committee recommends using the same reporting structure each year as this will make it easy to compare information from year to year.

The report must reflect the company’s position at the time of publication of the annual report. However, any significant changes that occurred after the completion of the company’s accounts, but before the publication of the annual report, should be included in the corporate governance statement.

5. Explanations of terms

In order to make it easier to understand new and existing terms, the Committee has chosen to provide an explanation of the terms used in this report.

Management

According to the Danish Companies Act, Danish limited liability companies may adopt one of two management structures. In both cases, the executive management is responsible for the day-to-day management.

Public limited companies must have either a board of directors or a supervisory board. If the company has a board of directors, the executive management is in charge of the day-to-day management, whereas the board of directors sets out the company’s overall strategic direction and management and supervises the executive management. If the company has a supervisory board, the supervisory board solely supervises the executive management as the executive management manages the overall executive function, i.e. the day-to-day management and the overall/strategic direction and management.

The Committee believes that companies are organized best with a board of directors and an executive management as this structure provides a constructive and value-creating interaction between the two management bodies. Therefore, the Committee has chosen in the recommendations solely to use the terms “board of directors”, “executive management” and “management” (for the board of directors and the executive management collectively).

The duties of the board of directors are described, inter alia, in the Danish Financial Statements Act and the Danish Companies Act. These recommendations must be considered in conjunction with this legislation.

Society

A company's conduct can potentially have a significant impact on the local, national and international community. Such impact extends beyond the products, services and the jobs that are produced or created, and can potentially have a positively or negatively impact on society as a whole. At the same time, the society's perception of a company (e.g. its reputation) may have an impact on such company's possibility to conduct its business effectively to ensure long-term value creation for the benefit of the company's stakeholders, including the shareholders.

The focus on corporate social responsibility has intensified in recent years, and, therefore, the Committee has chosen to focus even more on this issue in the updated recommendations.

Society naturally expects that a company understands and considers both the positive and negative effects it may have on society. Therefore, the Committee believes all companies have a duty to mitigate any potential negative impact on society as a whole, regardless of whether it is on a local, national or international level. As companies are closest to their industry and business, each company is best placed to assess its own impact on society.

Sustainability

”Sustainability” is a new term in these recommendations. The sustainability of a company includes, for instance, the company's economic, financial and innovative sustainability and sustainability in relation to the concepts Corporate Social Responsibility (“CSR”), Environment, Social and Governance (“ESG”) and the company's role as a positive contributor to society as a whole.

The Committee assesses that it is essential for the companies' value creation that companies consider sustainability in a broad sense, i.e. not only in the sense of economic sustainability, but also, for instance, by looking at environmental, employee and social society sustainability.

The company's purpose

”Purpose” is a new term in the recommendations. A company's purpose is the company's overall aim for long-term value creation, which the company delivers to its shareholders, other stakeholders and society. In order to support the company's statutory objects pursuant to its articles of association, the company's board of directors should consider the company's purpose. Many companies already have a purpose, which they use actively in the company's strategy, for instance, under the designations “mission” or “vision”.

The Committee considers the company’s purpose to be a considerable driving force in the company’s strategy and decision-making processes.

Proxy advisors

”Proxy advisors” is a new concept in the recommendations. Proxy advisors are firms, which provide advice to shareholders and handle the practical aspects of voting at general meetings in listed companies. Since proxy advisors play an increasingly larger role on the shareholders' voting, it is important that companies seek a dialogue with and make themselves available to the proxy advisors. Such dialogue aims to ensure that the advisors obtain relevant information about the company in order for the companies to avoid misunderstandings, which may lead to inexpedient voting and thus potentially limit the value creation in the companies.

The use of advisors

The Committee does not wish to address whether a company’s board of directors should use external advisors in relation to different processes. It is solely in respect of the Committee’s recommendation on evaluation of the board of directors that the Committee explicitly recommends the use of external assistance at least every three years. The Committee believes that an external advisor in connection with an evaluation of the board of directors increases the objectivity and quality of the evaluation and provides constructive sparring in the evaluation of the board of directors.

If a company's board of directors chooses to use advisors for tasks such as the preparation of incentive schemes, evaluation of the board of directors or the recruitment of management members, the board of directors should in choosing advisors ensure that there are no conflicts of interest with executive management. In addition, the board of directors should ensure that there are no conflicts of interest if the company uses the advisor in relation to other tasks.

Employee representatives

Danish companies have the possibility of including employee representatives on the board of directors, and under Danish law, employees are entitled to elect a number of members to the board of directors corresponding to at least half of the remaining members of the board of directors; however, generally at least two members.

Some of the rules applicable to members of the board of directors elected by the general meeting does not to the same degree apply to employee representatives. Employee representatives generally solely represent employees employed in Danish companies and not employees employed in foreign subsidiaries.

In recent years, there has been increased focus on the liability, competencies, legal capacity, etc., of the members of the board of directors elected by the general meeting. The Committee has not addressed the role of employee representatives on the board of directors. Nevertheless. the Committee notes that some companies may need to assess the employee representatives' role on the board of directors, and how the individual company optimises the value of the employee representatives' participation in the board of directors' work.

Danish Recommendations on Corporate Governance

1. Interaction with the company’s shareholders, investors and other stakeholders

Principles:

The company’s shareholders, investors and other stakeholders, including society, have a common interest in promoting the company’s development and ensuring that the company is competitive and value-creating in the short as well as the long term.

Therefore, the management must ensure that the company in the short as well as the long term develops in an expedient manner.

It is therefore important that the interaction between management and shareholders, as well as with the company's investors and other stakeholders, including society, is well-functioning.

Corporate governance is, inter alia, about creating a framework, which renders it easy for shareholders, investors and other stakeholders to interact with the company’s management. Openness and transparency are preconditions for shareholders, investors and other stakeholders being able to assess and consider the company and its future prospects on a current basis and for interacting with the company in a constructive manner.

1.1. Communication with the company’s shareholders, investors and other stakeholders

1.1.1. The Committee recommends that the management through ongoing dialogue and interaction ensures that shareholders, investors and other stakeholders gain the relevant insight into the company's affairs, and that the board of directors obtains the possibility of hearing and including their views in its work.

Comment

The board of directors’ insight in the dialogue could for instance take place through feedback from meetings held with shareholders, investors and other stakeholders or through other regular reports from the executive management. The board of directors should, through its chairperson, ensure a good and constructive relationship with the shareholders.

In addition to dialogue with the shareholders, investors and other stakeholders, the company may also, if possible, consider to have a dialogue with, for instance, representatives of the shareholders' proxy advisors, i.e. in relation to institutional investors' voting.

1.1.2. The Committee recommends that the company adopts policies on the company's relationships with its shareholders, investors and if relevant other stakeholders in order to ensure that the various interests are included in the company's considerations and that such policies are made available on the company's website.

Comment

The framework for the interaction with shareholders and investors may appear from an Investor Relations policy, describing, *inter alia*, which type of information the company must publish and in which languages, and how, when and to whom publication takes place. The framework for interaction with other stakeholders may also be described in a policy.

1.1.3. The Committee recommends that the company publishes quarterly reports.

Comment

Regular information to the market concerning the company's affairs creates openness and transparency. Regular announcements are not as comprehensive as quarterly reports and do not fulfil the recommendation.

1.2. The general meeting

1.2.1. The Committee recommends that the board of directors organises the company's general meeting in a manner that allows shareholders, who are unable to attend the meeting in person or are represented by proxy at the general meeting, to vote and raise questions to the management prior to or at the general meeting. The Committee recommends that the board of directors ensures that shareholders can observe the general meeting via webcast or other digital transmission.

1.2.2. The Committee recommends that proxies and postal votes to be used at the general meeting enable the shareholders to consider each individual item on the agenda.

Comment

In proxies and postal votes, shareholders should have the possibility of voting "for", "against" or "abstain" in respect of all items on the agenda.

As for the election of candidates, i.e. members to the board of directors and company auditor, the shareholders should have the option of voting "for", or "abstain" in respect of each candidate.

1.3. Takeover bids

1.3.1. The Committee recommends that the company has a procedure in place in the event of takeover bids, containing a "road map" covering matters for the board of directors to consider in the event of a takeover bid, or if the board of directors obtains reasonable grounds to suspect that a takeover bid may be submitted. In addition, it is recommended that it appears from the procedure that the board of directors abstains from countering any takeover bids by taking actions that seek to prevent the shareholders from deciding on the takeover bid, without the approval of the general meeting.

1.4. Corporate Social Responsibility

1.4.1. The Committee recommends that the board of directors adopts a policy for the company's corporate social responsibility, including social responsibility and sustainability, and that the policy is available in the management commentary and/or on the company's website. The Committee recommends that the board of directors ensures compliance with the policy.

Comment

The board of directors may consider whether the company should accede to national and international voluntary guidelines or similar initiatives. Information in this respect may be provided in the report in accordance with section 99 a of the Danish Financial Statements Act.

The board of directors should continuously ensure that the company complies with the corporate social responsibility policy, and the company should consider providing reports on its website on the development and any new measures within these areas on an annual basis.

1.4.2. The Committee recommends that the board of directors adopts a tax policy to be made available on the company's website.

Comment

In order to increase transparency in respect of the company's tax matters for shareholders, investors and other stakeholders, the board of directors may choose in the tax policy to provide greater insight into the company's tax matters than required under the law, for instance, in respect of the treatment of tax incentives, the use of tax planning, activities in so-called tax havens, payment of tax in countries in which the company operates (country-by-country reporting), etc.

In addition, the company may choose to describe, which matters the company will continuously report on in the future.

2. The duties and responsibilities of the board of directors

Principles:

It is the responsibility of the board of directors to safeguard the company's and the shareholders' interests with care and with due consideration for the investors and other stakeholders.

The board of directors must ensure the value creation in the company in the short as well as in the long term and is responsible for the company's strategy and for following up on the implementation of the strategy. In addition to the statutory duties, the board of directors must ensure that the company possesses the required financial prerequisites and the competencies to reach its targets.

Reaching the company's strategic targets presupposes that the board of directors engages a competent executive management to handle the day-to-day management, that the board of directors determines the division of duties between the board of directors and the executive management, determines the duties and the employment terms of the executive management and that the board of directors ensures that clear guidelines concerning responsibility, planning, follow-up and risk management are in place.

The board of directors supervises the executive management and determines the guidelines for executing the supervision. In supervising the executive management, the board of directors must ensure that the executive management continuously improves, and that members are retained or dismissed.

The chairperson organises, convenes and chairs meetings of the board of directors in order to ensure that duties are performed efficiently and pursues the best possible preconditions for performing the duties of the board of directors.

It may be expedient to organise the duties of the board of directors in an annual wheel in order to ensure that the board of directors addresses all the relevant duties on an annual basis.

2.1. Overall tasks and responsibilities

2.1.1. The Committee recommends that the board of directors in support of the company’s statutory objects according to its articles of association and the long-term value creation considers the company’s purpose and ensures and promotes a good culture and sound values in the company. The company should provide an account thereof in the management commentary and/or on the company's website.

Comment

The company’s purpose will often take into account its relations to the shareholders, other stakeholders and society in order to contribute to attaining the company’s statutory objects according to its articles of association and the long-term value creation.

The company’s purpose is pursued on a daily basis through the company’s culture and values, and the board of directors should ensure coherence between these.

2.1.2. The Committee recommends that the board of directors at least once a year discusses and on a regular basis follows up on the company’s overall strategic targets in order to ensure the value creation in the company.

Comment

When organising the strategy work and process the board of directors should have a real opportunity of defining and considering the company’s targets and direction.

In addition to a plan for the value creation, the strategy process should include a consideration of whether the company's strategy adequately addresses the company's short-term and long-term opportunities and challenges, and whether the company possesses the required financial and managerial resources and competencies to execute the strategy.

2.1.3. The Committee recommends that the board of directors on a continuously basis takes steps to examine whether the company’s share and capital structure supports the strategy and the long-term value creation in the interest of the company as well as the shareholders. The Committee recommends that the company gives an account thereof in the management commentary.

Comment

For the purpose of this recommendation, share and capital structure means the share capital's size, denomination, any share classes and the voting rights attached to each share class, including any restrictions on the voting rights, the right to receive dividend, the ratio between self-financing and external financing, own shares, share buy-back, etc.

2.1.4. The Committee recommends that the board of directors prepares and on an annual basis reviews guidelines for the executive management, including requirements in respect of the reporting to the board of directors.

Comment

The guidelines on the division of duties between the board of directors and executive management should provide the framework for the interaction between the board of directors and executive management, including, for instance, the powers to take actions and the division of responsibilities between the members of the executive management. If the board of directors and the executive management require special work procedures, approval of policies and powers, this should appear from the guidelines.

2.2. Members of the board of directors

2.2.1. The Committee recommends that the board of directors, in addition to a chairperson, appoints a vice chairperson, who can step in if the chairperson is absent and who can generally act as the chairperson’s close sparring partner.

Comment

The rules of procedure of the board of directors may include a description of the chairperson’s and the vice chairperson's duties and responsibilities.

2.2.2. The Committee recommends that the chairperson in cooperation with the individual members of the board of directors ensures that the members up-date and supplement their knowledge of relevant matters, and that the members’ special knowledge and qualifications are applied in the best possible manner.

2.2.3. The Committee recommends that if the board of directors, in exceptional cases, requests a member of the board of directors to take on special duties for the company, for instance, for a short period to take part in the daily management of the company, the board of directors should approve this in order to ensure that the board of directors maintains its independent overall management and control function. It is recommended that the company publishes any decision on allowing a member of the board of directors to take part in the daily management, including the expected duration thereof.

Comment

In order to preserve the proper division of duties between the chairperson, the vice chairperson, the remaining members of the board of directors and the executive management, an agreement for a member of the board of directors to take on special duties should include measures to ensure the division of duties.

3. The composition, organisation and evaluation of the board of directors

Principles:

The board of directors acts collectively and has a joint responsibility for performing the duties of the board of directors. The composition of the board of directors must enable the board of directors to manage duties relating to strategy, management and supervision/control. It is important that the board of directors manages its duties efficiently in a constructive dialogue with executive management and that the individual members of the board of directors always act independently without any conflict of interest.

Diversity (including age, gender or educational and commercial background) increases the quality of the work and the interaction on the board of directors and ensures diverse approaches to solving the tasks of the board of directors.

The board of directors determines the qualifications required on the board and continuously evaluates whether the composition and the qualifications of the members, reflect the company's requirements for safeguarding the company's interests.

The evaluation of the board of directors is an important tool to ensure that the company has a competent, relevant, professional and active board of directors. It is therefore important that the board of directors on a current basis conducts self-evaluation and evaluates its cooperation with executive management, and that there is transparency in the process as well as the results of the evaluations. The evaluation should also include an evaluation of the chairperson's performance of his/her duties.

Pursuant to the Danish Companies Act, the board of directors will typically include employee representatives, and they should be evaluated in the same manner as the other members of the board of directors.

3.1. Composition

3.1.1. The Committee recommends that the board of directors on an annual basis reviews and in the management commentary and/or on the company's website states

- which qualifications the board of directors should possess, collectively and individually, in order to perform its duties in the best possible manner, and
- the composition of and diversity on the board of directors.

Comment
Diversity includes, inter alia, age, gender or educational and commercial background.

3.1.2. The Committee recommends that the board of directors on an annual basis discusses the company's activities in order to ensure relevant diversity at the different management levels of the company and adopts a diversity policy, which is included in the management commentary and/or available on the company's website.

Comment
A diversity policy should focus on issues that strengthen the management's qualifications and competencies and support the company's future development.

In its policy, the company may explain how it actively works on increasing diversity, including the gender distribution at the different management levels in the company.

3.1.3. The committee recommends that candidates for the board of directors are recruited based on a thorough process approved by the board of directors.

The Committee recommends that in assessing candidates for the board of directors – in addition to individual competencies and qualifications – the need for continuity, renewal and diversity is also considered.

3.1.4. The Committee recommends that the notice convening general meetings, where election of members to the board of directors is on the agenda - in addition to the statutory items - also includes a description of the proposed candidates'

- qualifications,
- other managerial duties in commercial undertakings, including board committees,
- demanding organisational assignments and
- independence.

Comment

The notice convening the general meeting may describe the recruiting criteria, which the board of directors has attached importance to, including the required professional and personal qualifications, trade experience, diversity, etc.

3.1.5. The Committee recommends that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually.

3.2. The board of director's independence

3.2.1. The Committee recommends that at least half of the members of the board of directors elected in general meeting are independent in order for the board of directors to be able to act independently avoiding conflicts of interests.

In order to be independent, the member in question may not:

- be or within the past five years have been a member of the executive management or an executive employee in the company, a subsidiary or a group company,
- within the past five years have received large emoluments from the company/group, a subsidiary or a group company in another capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year have had a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company, which is significant for the company and/or the business relationship,
- be or within the past three years have been employed with or a partner in the same company as the company's auditor elected in general meeting,
- be a CEO in a company with cross-memberships in the company's management,
- have been a member of the board of directors for more than twelve years, or
- be closely related to persons, who are not independent, cf. the above-stated criteria.

Even if a member of the board of directors does not fall within the above-stated criteria, the board of directors may for other reasons decide that the member in question is not independent.

Comment

The board of directors considers whether its individual members are independent based on the above-stated criteria. In the assessment, the board of directors should emphasise the facts rather than the formalities.

A member's lack of independence is not considered an issue as long as at least half of the board members elected by the general meeting are independent.

The fact that a member of the board of directors is elected with the votes of a controlling shareholder does not in itself imply that such member is non-independent.

If several members of the board of directors are associated with shareholders with significant influence, the board of directors should consider whether its composition is appropriate in terms of independence. The Committee assesses that as a starting point a shareholder with more than 20% of the voting rights is considered to have significant influence.

Closely related means spouses, relatives in ascending or descending lines, siblings, spouses of such persons or other persons who have had a particularly close relationship to one another.

The Committee does not find employee representatives to be independent.

3.2.2. The Committee recommends that members of the executive management are not members of the board of directors and that members retiring from the executive management does not join the board of directors immediately thereafter.

Comment
There should be an appropriate division of responsibilities and independence between the board of directors and the executive management. In addition, a newly appointed member of executive management should have the possibility of acting independently of the former executive member.

3.3. Members of the board of directors and the number of other managerial duties

3.3.1. The Committee recommends that the board of directors and each of the members on the board of directors, in connection with the annual evaluation, cf. recommendation 3.5.1., assesses how much time is required to perform the board duties. The aim is for the individual member of the board of directors not to take on more managerial duties than the board member in question is able to perform in a satisfactory manner.

Comment

Since the workload in the individual companies varies, the Committee does not apply a "scoring system". Whether a board member has required time to perform the duties as a member of the board of directors must be based on an assessment of the specific board duties in the company and the individual member's other duties.

The assessment of whether the individual member has the required time should be based on whether the member is able to contribute actively to the work on the board of directors, is well-prepared at meetings and has the necessary time available for the work on the board of directors.

3.3.2. The Committee recommends that the management commentary, in addition to the statutory requirements, contains the following information on the individual members of the board of directors:

- position, age and gender,
- competencies and qualifications relevant to the company,
- independence,
- year of joining the board of directors,
- year of expiry of the current election period,
- participation in meetings of the board of directors and committee meetings,
- managerial duties in other commercial undertakings, including board committees, and demanding organisational assignments, and
- the number of shares, options, warrants, etc. that the member holds in the company and its group companies and any changes in such holdings during the financial year.

Comment

It is relevant to disclose each member's participation in meetings of the board of directors and board committees given that participation in such meetings indicates whether the individual member has sufficient time for the board duties in the company.

Physical attendance should be the norm, but participation may also take place through digital means.

3.4. Board committees

Establishing board committees may increase efficiency and improve the overall quality of the board of directors' work. Board committees are committees set up by the board of directors for a specific purpose and the members who sit on these committees are chosen among the members of the board of directors.

Board committees should solely have a preparatory function prior to the board of directors' consideration of and decision on a matter. As a result, all significant information should not solely be received by the board committee but should be submitted to all members of the board of directors, nor should the board of directors restrict or omit matters for consideration and decision by the board of directors.

Consequently, the board of directors remain responsible for decisions prepared by a board committee.

The Committee recommends that the board of directors, in addition to the statutory audit committee, as a minimum establishes a nomination committee and a remuneration committee. If the company is particularly exposed, or if other circumstances render it relevant for the company to set up additional permanent committees, the board of directors should consider this. This may also contribute to optimising the use of special competencies on the board of directors. Examples of other permanent committees may be a research and development committee, a conduct and compliance committee or a risk committee.

In order to ensure the required focus and time spent on a particular assignment, the board of directors may elect to set up an ad hoc committee to handle important assignments or matters that may be of a temporary nature, for instance, for the purpose of addressing reputational issues, negotiating large acquisitions or responding to takeover bids. The recommendations do not cover such *ad hoc* board committees.

3.4.1. The Committee recommends that the management describes in the management commentary:

- the board committees' most significant activities and number of meetings in the past year, and
- the members on the individual board committees, including the chairperson and the independence of the members of the committee in question.

In addition, it is recommended that the board committees' terms of reference are published on the company's website.

3.4.2. The Committee recommends that board committees solely consist of members of the board of directors and that the majority of the members of the board committees are independent.

Comment

It is the Committee's view that the board committees should solely consist of members of the board of directors having a broad knowledge and understanding of the company's overall position.

This does not prevent the board committees from engaging professional advisors (e.g. legal assistance) and obtaining input from specific stakeholders (e.g. the shareholders).

3.4.3. The Committee recommends that the board of directors establishes an audit committee and appoints a chairperson of the audit committee, who is not the chairperson of the board of directors. The Committee recommends that the audit committee, in addition to its statutory duties, assists the board of directors in:

- supervising the correctness of the published financial information, including accounting practices in significant areas, significant accounting estimates and related party transactions,
- reviewing internal control and risk areas in order to ensure management of significant risks, including in relation to the announced financial outlook,
- assessing the need for internal audit,
- performing the evaluation of the auditor elected by the general meeting,
- reviewing the auditor fee for the auditor elected by the general meeting,
- supervising the scope of the non-audit services performed by the auditor elected by the general meeting, and
- ensuring regular interaction between the auditor elected by the general meeting and the board of directors, for instance, that the board of directors and the audit committee at least once a year meet with the auditor without the executive management being present.

If the board of directors, based on a recommendation from the audit committee, decides to set up an internal audit function, the audit committee must:

- prepare terms of reference and recommendations on the nomination, employment and dismissal of the head of the internal audit function and on the budget for the department,
- ensure that the internal audit function has sufficient resources and competencies to perform its role, and
- supervise the executive management's follow-up on the conclusions and recommendations of the internal audit function.

Comment

If the board of directors choses to anchor the whistleblower scheme with the audit committee, cf. the comment on recommendation 5.1.2., this also becomes a task with which the committee assists the board of directors.

3.4.4. The Committee recommends that the board of directors establishes a nomination committee to perform at least the following preparatory tasks:

- describing the required qualifications for a given member of the board of directors and the executive management, the estimated time required for performing the duties of this member of the board of directors and the competencies, knowledge and experience that is or should be represented in the two management bodies,
- on an annual basis evaluating the board of directors and the executive management's structure, size, composition and results and preparing recommendations for the board of directors for any changes,
- in cooperation with the chairperson handling the annual evaluation of the board of directors and assessing the individual management members' competencies, knowledge, experience and succession as well as reporting on it to the board of directors,
- handling the recruitment of new members to the board of directors and the executive management and nominating candidates for the board of directors' approval,
- ensuring that a succession plan for the executive management is in place,

- supervising executive managements' policy for the engagement of executive employees, and
- supervising the preparation of a diversity policy for the board of directors' approval.

3.4.5. The Committee recommends that the board of directors establishes a remuneration committee to perform at least the following preparatory tasks:

- preparing a draft remuneration policy for the board of directors' approval prior to the presentation at the general meeting,
- providing a proposal to the board of directors on the remuneration of the members of the executive management,
- providing a proposal to the board of directors on the remuneration of the board of directors prior to the presentation at the general meeting,
- ensuring that the management's actual remuneration complies with the company's remuneration policy and the evaluation of the individual member's performance, and
- assisting in the preparation of the annual remuneration report for the board of directors' approval prior to the presentation for the general meeting's advisory vote.

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

3.5.1. The Committee recommends that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation. The Committee recommends that the evaluation focuses on the recommendations on the board of directors' work, efficiency, composition and organisation, cf. recommendations 3.1.-3.4. above, and that the evaluation as a minimum always includes the following topics:

- the composition of the board of directors with focus on competencies and diversity
- the board of directors and the individual member's contribution and results,
- the cooperation on the board of directors and between the board of directors and the executive management,
- the chairperson's leadership of the board of directors,
- the committee structure and the work in the committees,
- the organisation of the work of the board of directors and the quality of the material provided to the board of directors, and
- the board members' preparation for and active participation in the meetings of the board of directors.

Comment

It may be considered to have procedures in place for the evaluation of the board of directors, which as a minimum describes how the evaluation of the board of directors is founded with the entire board of directors, the frequency and scope of the evaluations, how the board of directors reports on the evaluations and how the board of directors optionally involves external assistance.

The evaluation may consist of an anonymous questionnaire focusing on the topics set out in the recommendation and subsequent individual interviews between the chairperson and the individual members during which feedback may be given based on the survey.

When the board of directors engages external advisors, interviews may be conducted with the individual members of the board of directors and the executive management.

The vice chairperson or another member of the board of directors should on behalf of the board of directors handle the feedback to the chairperson in respect of his/her performance.

A successful evaluation of the board of directors will identify the competencies, which the board of directors possesses and ought to possess in order for the company to develop. In light of this, the board of directors can identify requirements in respect of competencies, knowledge and diversity for prospective members of the board of directors.

3.5.2. The Committee recommends that the entire board of directors discusses the result of the evaluation of the board of directors and that the procedure for the evaluation and the general conclusions of the evaluation are described in the management commentary, on the company's website and at the company's general meeting.

3.5.3. The Committee recommends that the board of directors at least once a year evaluates the work and results of the executive management according to pre-established criteria, and that the chairperson reviews the evaluation together with the executive management. In addition, the board of directors should on a continuous basis assess the need for changes in the structure and composition of the executive management, including in respect of diversity, succession planning and risks, in light of the company's strategy.

4. Remuneration of management

Principles:

In order to facilitate a better understanding and acknowledgement of the compensation package offered to the management it is important that there is openness and transparency concerning the company's overall remuneration policy and the size of the remuneration of the individual members of management. The remuneration policy should support the company's long-term value creation, and the board of directors should consider whether the remuneration is reasonable.

In addition, competitive remuneration is a precondition for attracting and retaining competent members to the management. The company should have a remuneration policy under which the overall remuneration, i.e. the fixed and variable parts and the other employment terms, are reasonable and in accordance with the individual management member's responsibilities, performance and value creation.

The variable part of the remuneration (incentive pay) will normally be divided into short-term remuneration, typically cash-based bonus schemes, relating to the results achieved in a specific financial year, and long-term remuneration, typically share-based incentive schemes, relating to the company's development over a number of years.

A short-term bonus scheme should in addition to the short-term targets and results be viewed in relation to the company's strategic direction and the remuneration depending on the achievement of long-term results.

In order to support the long-term value creation, the variable part of the remuneration relating to the long-term incentive schemes should be based on realised results over a period of at least three years. The board of directors should consider the value of the remuneration at the time of allocation as well as the potential value at the time of exercise based on pessimistic, expected and optimistic scenarios.

The board of directors should ensure a reasonable and responsible correlation between remuneration and value creation. Short-term bonus schemes as well as long-term incentive schemes should be established in a manner that does not unduly promote short-sighted and risk-prone conduct.

A company may wholly or partly replace cash remuneration of the board of directors with remuneration paid in shares of the company corresponding to an equivalent value.

4.1. Remuneration of the board of directors and the executive management

4.1.1. The Committee recommends that the remuneration for the board of directors and the executive management and the other terms of employment/service is considered competitive and consistent with the company's long-term shareholder interests.

Comment

The board of directors should, if relevant, consider comparison to national as well as international positions when establishing the remuneration packages. It is important that the board of directors considers the appropriate balance between avoiding excessive remuneration packages and at the same time being able to attract the people with the right competencies, which the board of directors should detail in the remuneration report.

If relevant, the board of directors may also disclose which peer group the company compares itself to.

4.1.2. The Committee recommends that share-based incentive schemes are revolving, i.e. that they are periodically granted, and that they primarily consist of long-term schemes with a vesting or maturity period of at least three years.

4.1.3. The Committee recommends that the variable part of the remuneration has a cap at the time of grant, and that there is transparency in respect of the potential value at the time of exercise under pessimistic, expected and optimistic scenarios.

Comment

A cap relating to variable remuneration at the time of grant may, for instance, be stated as the value of a defined number of months of base salary.

4.1.4. The Committee recommends that the overall value of the remuneration for the notice period, including severance payment, in connection with a member of the executive management's departure, does not exceed two years' remuneration including all remuneration elements.

Comment

The calculation of two years' remuneration includes any grants under long-term incentive schemes during the notice period at the value at the time of grant, while payments during or after the notice period from previous grants are not included.

4.1.5. The Committee recommends that members of the board of directors are not remunerated with share options and warrants.

Comment

It is not contrary to the recommendations that members of the board of directors receive a part of their remuneration in the form of shares at market value.

4.1.6. The Committee recommends that the company has the option to reclaim, in whole or in part, variable remuneration from the board of directors and the executive management if the remuneration granted, earned or paid was based on information, which subsequently proves to be incorrect, or if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.

5. Risk management

Principles:

Risk and risk management becomes increasingly decisive. Effective risk management contributes to reducing the strategic and business risks, to ensuring compliance and to securing the quality of the basis for management decisions and the financial reporting.

Companies are exposed to different risks. Therefore, it is important that the board of directors identifies and considers the company-specific risks and ensures that effective risk management is in place, including appropriate internal control. This also applies to the company's risks in relation to sustainability.

Risk management should be a regular item on the “annual wheel” of the board of directors and the company should report on the procedure for exposing risks, the identified significant risks and how the company handles such risks.

5.1. Identification of risks and openness in respect of additional information

5.1.1. The Committee recommends that the board of directors based on the company's strategy and business model considers, for instance, the most significant strategic, business, accounting and liquidity risks. The company should in the management commentary give an account of these risks and the company's risk management.

Comment

The information on the company's risk management may, if relevant, be extended to include digital risks and supplement the statutory statement in the management commentary on the company's internal control and risk management systems in connection with the financial reporting procedures.

5.1.2. The Committee recommends that the board of directors establishes a whistleblower scheme, giving the employees and other stakeholders the opportunity to report serious violations or suspicion thereof in an expedient and confidential manner, and that a procedure is in place for handling such whistleblower cases.

Comment

A whistleblower scheme may be a good tool for proactively identifying and reacting to risks.

The board of directors may anchor the scheme in the audit committee.

It will be relevant on a current basis to inform the audit committee and the board of directors of the number, nature and justification of reports made under the whistleblower scheme.

Appendix

The Danish Committee on Corporate Governance in perspective

The Danish Committee on Corporate Governance should primarily – but not exclusively:

- Participate in the Corporate Governance networks in the EU and internationally,
- consider the implementation of the EU Commission's recommendations, etc., assuming that the Member States operate with national Corporate Governance bodies,
- monitor the development within Corporate Governance nationally and internationally,
- be heard/submit responses to hearing requests in relation to relevant draft legislation,
- aim at continuity in its work with Corporate Governance in Denmark,
- work to towards ensuring that companies with shares listed on a regulated market in Denmark have reasonable and expedient conditions to adapt to the Recommendations on Corporate Governance in force from time to time,
- collect viewpoints and experience from companies based on their work with the recommendations in their daily business,
- initiate and support empirical studies regarding Corporate Governance,
- at regular intervals and following relevant hearing, adapt the Danish Recommendations on Corporate Governance to ensure that the recommendations at all times, based on an overall assessment, are relevant for Danish listed companies and in compliance with Danish and EU company law and recognised best practice.

The members of the Committee are appointed for a period of two years. The members are eligible for reappointment for an additional three terms.

Lars Nørby Johansen, Jørgen Lindegaard, Waldemar Schmidt and Mads Øvlisen were by the terms of reference of 2 March 2001 requested to assess the need for Recommendations on Corporate Governance in Denmark and if so, to prepare a proposal for such recommendations. That same year, the first Recommendations on Corporate Governance were published.

At the time of the publication of the recommendations, the Committee is composed of Lars Frederiksen (chairperson), Lars Søren Rasmussen (vice chairperson), Rikke Schiøtt Petersen, Laila Mortensen, Eric Christian Pedersen, Thomas Thune Andersen, Kirsten Aaskov Mikkelsen, Nikolaj Kosakewitsch, Lars Marcher, Agnete Raaschou-Nielsen and Jesper Brandgaard.

Since 2001, 39 persons have participated in the work on the recommendations. In addition to the above-mentioned persons, these persons include Birgit Aagaard-Svendsen, Bjørn Sibbern, Bodil Nyboe Andersen, Britt Meelby Jensen, Carsten Stendevad, Christian Hyldahl, Dorrit Vanglo, Finn Meyer, Hans-Ole Jochumsen, Henrik Brandt, Henrik Stenbjerre, Ingelise Bogason, Jens Due

Olsen, Jørn P. Jensen, Karen Frøsig, Lars Rohde, Marianne Phillip, Ole Andersen, Per Gunslev, Peter Ravn, Sten Scheibye, Stig Enevoldsen, Thomas Hofman-Bang and Vagn Sørensen.

The recommendations have been updated ten times; in 2005, twice in 2008, in 2010, in 2011, in 2013, twice in 2014, in 2017 and latest in 2020.

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