GUIDELINES ON BOARD COMMITTEES

Guidelines on Board Committees, updated 29 August 2018
Recommendations on Corporate Governance, November 2017

Contents

1 BOARD COMMITTEES

The Recommendations on Corporate Governance, clause 3.4, recommend that the board of directors establish board committees to carry out preparatory work prior to the consideration by the board of directors, including an audit committee (recommendation 3.4.3), a nomination committee (recommendation 3.4.6) and a remuneration committee (recommendation 3.4.7).

Other permanent board committees, such as a risk committee, may be established by the board of directors if special circumstances in the company render this necessary. The Recommendations on Corporate Governance do not cover ad hoc committees, but the board of directors may choose to apply the guidelines to such committees.

The Committee has drawn up these guidelines to be used as inspiration for setting up committees. The actual report on Corporate Governance should solely be prepared on the basis of the Committee's specific recommendations – and not based on the comments on the individual recommendations or guidelines.

These guidelines may be updated independently of the Recommendations on Corporate Governance.

Board committees may contribute to improving efficiency and the quality of the work performed by the board of directors by preparing the material that forms the basis for the resolutions to be made by the board of directors. However, in smaller companies with few members on the board of directors it may in certain situations be appropriate to let the board of directors handle the tasks that would normally be handled by board committees.

The sole purpose of a board committee is to carry out preparatory work prior to the consideration by the board of directors, and it is important that significant information required by all members of the board of directors is not solely communicated to the board committee, or that the necessary consideration by the board of directors is limited or omitted.

The board of directors thus remains fully responsible for all decisions based on proposals prepared by a board committee.

It is recommended that terms of reference are prepared for each of the established board committees (recommendation 3.4.1). The terms of reference should address the purpose of establishing the committee, its members, the committee's tasks, powers and reporting to the board of directors etc. In practice, the committees in question will prepare separate rules of procedure describing the tasks of that committee.

The Committee on Corporate Governance has prepared proposals for subjects that may be covered by the terms of reference for the three recommended permanent board committees. The subjects are for inspirational purposes only and companies shall, based on the individual company's situation, prepare or revised the terms of reference for established board committees.

In connection with the composition of board committees, it should be considered which qualifications are required and which members of the board of directors possess such qualifications.

Furthermore, it is recommended (recommendation 3.4.2) that a majority of the members of a board committee be independent. In respect of independence, reference is made to the Recommendations on Corporate Governance, recommendation 3.2.1. Employee representatives elected to the board of directors are not considered independent.

In addition, it is recommended (recommendation 3.4.1) that the company publish on its website, which committees have been set up as well as the committees' terms of reference. Furthermore, it is recommended that the most important activities of the committees during the year, the number of meetings held by each committee, the names of the members of each committee and the names of the chairmen of the committees are stated; as well as an indication of which members are independent and which members hold special competencies.

The board of directors appoints the committee chairmen and the committee members.

As for the *audit committee*, it is recommended (recommendation 3.4.3) that this committee should only consist of members of the board of directors and not external parties, as external parties do not have the same insight into company matters and are not necessarily subject to the same liability as the members of the board of directors; and that a chairman is appointed who is not the chairman of the board of directors.

As for the *nomination committee*, it follows from the comment to recommendation 3.4.6 that the nomination committee should consider including external assistance, e.g. in the form of consultancy advice in relation to identifying potential candidates for the board of directors in order to ensure a large pool of candidates.

If the remuneration committee consults external advisers in respect of e.g. remuneration matters, it is recommended (recommendation 3.4.8) that the *remuneration committee* does not consult the same external advisers as the company's executive board.

Minutes of committee meetings must be prepared and should, after having been approved by the committee in question, be forwarded to all members of the board of directors. It should also be a fixed item on the agenda of meetings of the board of directors that each committee present a report on the work performed since the last meeting.

2 REMUNERATION COMMITTEE (RECOMMENDATION 3.4.7)

Terms of reference for the committee may include the following:

I. Purpose:

The remuneration committee is established with the primary purpose of assisting the board of directors in performing the duties relating to salary payment and remuneration on which the board of directors must decide, and in this respect ensuring that these duties are performed as objectively and professionally as possible.

The remuneration committee's role is solely preparatory to the consideration by the board of directors, and the committee must therefore present detailed accounts of its deliberations for the board of directors' consideration.

II. The tasks of the remuneration committee:

- Present the recommended remuneration policy, including the overall guidelines for incentive pay to the board of directors and the executive board for the approval by the board of directors, prior to the approval hereof at the general meeting;
- Submit proposals to the board of directors for remuneration (all types of remuneration, including fixed, variable or performance-based remuneration, pension, benefits, company car schemes, severance agreements etc.) of the members of the board of directors and the executive board.
- Ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the person in question; and that the remuneration is correctly and adequately described in the company's annual report. The committee must be informed of the total remuneration that members of the board of directors and the executive board receive from other companies in the group and associated companies;
- Recommend a remuneration policy for the company's employees. This policy is not required to comply with the recommendations set out in recommendation 4.1.1.

- Monitor other matters relating to the above-mentioned tasks, which, at the discretion of the remuneration committee, are deemed necessary; as well as other tasks which the board of directors may request the remuneration committee to prepare or assess.
- Assist in the preparation of the annual remuneration report.
- Perform self-evaluation.

3 NOMINATION COMMITTEE (RECOMMENDATION 3.4.6)

Terms of reference for the committee may include the following:

I. Purpose:

The nomination committee is established for the purpose of improving efficiency and the quality of the work performed by the board of directors in relation to ensuring that the board of directors, the board committees, the executive board and other managerial staff continuously hold the necessary competencies, qualifications, knowledge and experience to perform their individual duties.

The nomination committee should also contribute to ensuring that plans and procedures are in place at all times to ensure proper replacement of persons in key positions (succession planning) and to follow up on the company's diversity goals.

The nomination committee's role is solely preparatory to the consideration by the board of directors, and the committee must therefore present detailed accounts of its deliberations for the board of directors' consideration.

II. The tasks of the nomination committee:

a) Annually:

- Describe the competencies required in the two governing bodies, including for a given position, and indicate the time expected to be required for such position.
- Describe the structure, size, composition and results of the board of directors and the executive board as well as submit reports to this effect to the board of directors and recommend any changes.
- Describe the competencies, qualifications, knowledge and experience of the individual members of the governing bodies in relation to the required qualifications for the board of directors and the executive board as well as for other executive staff.
- Recommend a procedure for the board of directors' self-evaluation.

b) On a current basis:

i. In connection with a search process for a given position on the board of directors or the executive board:

- The nomination committee shall ensure that this process is thorough and transparent for the board of directors, and should include a written profile on the position to be filled, including the requirements in respect of competencies, qualifications, knowledge and experience as well as the expected time required for such position.
- Consider using external advisers when selecting candidates.
- Ensure qualified selection of any external advisers based on qualifications, knowledge and experience.
- Recommend candidates for the board of directors and the executive board.
- Review and evaluate the candidates and their competencies, knowledge and experience; and assess whether they have the necessary time available, and recommend one or more candidates for the board of directors' consideration and potential approval. The evaluation should take place considering the description of the annual tasks to be performed, see above so that proposed candidates presented to the board of directors for consideration support the company's required

qualifications and take into consideration the diversity policy in terms of gender, age and international experience, see recommendation 3.1.2.

ii. Other tasks:

- Consider other matters relating to the above-mentioned tasks, which at the discretion of the remuneration committee are deemed necessary, as well as other tasks, which the board of directors may request the nomination committee to prepare or assess.

4 AUDIT COMMITTEE (RECOMMENDATIONS 3.4.3, 3.4.4 and 3.4.5)

It is recommended (recommendation 3.4.3) that the audit committee only consist of members of the board of directors, and that a chairman is appointed who is not the chairman of the board of directors.

In addition to the tasks recommended to be performed by the audit committee in recommendations 3.4.4 and 3.4.5, a number of tasks are imposed on the audit committee under section 31 of the Danish Act on Approved Auditors and Audit Firms and Regulation (EU) No. 537/2014 of the European Committee and of the Council, the "Audit Regulation". In addition, the Danish Business Authority in May 2018 issued "Guidelines on audit committees". The terms of reference below address the provisions included in the recommendations, the Danish Act on Approved Auditors and Audit Firms, the Audit Regulation and the Guidelines on audit committees.

Terms of reference for the committee may include the following:

I. Purpose:

The audit committee submits its proposals to the board of directors in regards to accounting, reporting and auditing matters.

The audit committee's role is solely preparatory to the consideration by the board of directors, and the committee must therefore present detailed accounts of its deliberations for the board of directors' consideration.

If necessary, the audit committee may invite the executive board, the CFO, other executive staff or the external and internal auditors to attend the meetings.

II. The tasks of the audit committee:

- Inform the board of directors of the outcome of the statutory audit, including the financial reporting procedure.
- Monitor the financial reporting procedure and present recommendations or proposals to ensure integrity in the procedure of presenting the financial statements.
- Monitor the company's internal control systems and that any internal audit and risk management systems work efficiently in relation to the company's financial reporting without compromising its independence.
- Monitor the statutory audit of the annual accounts etc., considering the outcome of the latest quality control by the audit firm.
- Check and monitor the auditor's independence and approve the auditor's provision of services other than auditing.
- Be responsible for the procedure of selecting and recommending an auditor for election.

a) Financial reporting

- Monitor the financial reporting and the financial information etc. in the annual reports, interim reports, prospectuses etc. and/or other financial reports issued by the company and assess the overall information that is published.

- Monitor the accounting policies and their adequacy in respect of key areas, including the recognition and measurement methods applied in significant and unusual transactions, where the accounting procedures may be based on alternative accounting practices.
- Monitor significant accounting estimates, changes to them and their basis, assumptions and documentation.
- Monitor uncertainties and risks in connection with the presentation of the accounts, including also in relation to the expectations for the current year.
- Monitor transactions with related parties and the presentation hereof in the financial reporting.
- Prepare the board of directors' consideration and assessment of whether the accounts are prepared on a going concern basis, including any special underlying assumptions and any uncertainties that may be related thereto.
- Monitor the company's future expectations (guidance) and the basis, uncertainties and risks in this respect.
- Monitor the company's tax policy.
- Monitor the company's reporting on CSR, corporate governance, internal controls, target figures for the underrepresented gender and other statutory information provided in the management commentary or on the company's website.
- Monitor compliance with other rules of a financial nature applicable to the company.
- Report to the board of directors on the activities of the audit committee in connection with the consideration of annual and interim reports that are published.

b) <u>The company's internal control and risk management systems</u>

- At least once a year, review and assess the company's internal control and risk management systems, management policies and guidelines in this respect as well as monitor them for the purpose of assessing the efficiency and adequacy of the control mechanisms and/or for detecting any weaknesses.
- Monitor the company's procedures to prevent, expose and report fraud.
- Monitor the whistleblower scheme.
- Present recommendations to the board of directors for remedying any deficiencies, weaknesses etc. in the internal control mechanisms in relation to fraud and in order to strengthen the company's procedures for preventing and exposing fraud.
- Prepare recommendations or proposals to remedy any identified deficiencies or improvements to the company's organisation and allocation of responsibility in the accounting functions.
- Retrieve information from the executive board as to whether the control and risk management systems work efficiently and adequately.
- Discuss with the auditor any deficiencies or weaknesses in the company's internal control and risk management systems.
- Monitor the reporting in the management commentary or on the company's website concerning the main elements in the company's internal control and risk management systems.

c) <u>Internal audit</u>

<u>For companies that have not established an internal audit:</u>

- At least once a year, consider whether there is a need for an internal audit and if so, submit a recommendation to the board of directors in this respect.

<u>For companies that have established an internal audit:</u>

- Ensure that a description of the internal audit's functions is available, and approved by the board of directors.
- Ensure that adequate resources and competencies are allocated to carry out the work of the internal audit.
- Submit a budget for the internal audit for the board of directors' approval and follow up on the approved budget.
- Monitor the internal audit's independence and qualifications by, inter alia, assessing the organisational position, additional training and tasks performed. If required, recommend to the board of directors that the head of the internal audit is replaced.

- Monitor the internal audit's audit plan and resource allocation.
- Assess significant internal audit reports or periodic summaries.
- Monitor the executive board's follow-up on the conclusions and recommendations.

d) <u>External audit</u>

1) <u>Monitor the statutory audit of the annual report etc.</u>
- Present proposals to the board of directors concerning the audit agreement and the audit fee.
- Monitor the external auditor's audit strategy and plan etc. for the group and the company, including the intended materiality level and identification of significant risks prior to commencing the audit and assessment of any changes in this respect and the reasons for any such changes.
- Monitor the result of the audit, including the auditor's observations and conclusions indicated in the audit report and any other reporting.
- Monitor the executive board's follow-up on the external auditor's conclusions and recommendations.
- Assess the cooperation between the company and the external auditor, including based on feedback from the company's key staff, who have been involved in the performance of the audit.

2) <u>Supervise and monitor the auditor's independence</u>
- Perform a specific and critical assessment of the external auditor's independence, objectivity and qualifications; for instance, by checking that the guidelines applicable in respect of firm rotation and partner rotation are complied with and monitoring the size and composition of the fees for audits and other services respectively, including compliance with the 70%-limit for non-audit services.
- Determine procedures for ensuring the auditor's independence and objectivity.
- Present proposals to the board of directors concerning the auditor's provision non-audit services.
- Discuss threats to the auditor's independence with the auditor, as well as the measures taken to counteract such threats that are documented by the auditor.
- Approve the auditor's performance of permitted non-audit services contemplated to be carried out by the auditor. Authorisation for standard services may be given to the executive board on the delivery of non-audit services.
- Prepare guidelines for the provision of tax and valuation services permitted under the Danish Act on Approved Auditors and Audit Firms.

3) <u>Be responsible for the procedure of selecting and recommending an auditor for election</u>
- Submit proposals to the board of directors on the election of an auditor at the annual general meeting.
- Assess whether the audit should be put out to tender, if a new auditor is required or if a tender is required; and if so, monitor the tender procedure, establish criteria for the selection of an auditor, nominate the firms to be invited to take part in the tender, monitor the tender material, monitor firm presentations and procedures in this respect and assess tenders received and the robustness hereof.
- Present proposals to the board of directors concerning the election of an audit firm, entering an audit agreement and agreeing on a fee structure with the firm elected. Ensure in connection with tenders that a reasoned recommendation for the choice of auditor is available to the board of directors, which must contain at least two options and the reasons for the committee's preference.

4) <u>Monitor the latest quality review of the audit firm</u>
- Monitor the result of the latest quality review in the transparency report issued by the audit firm and in the report on the results of the quality review published by the Danish Business Authority.
- Discuss the result of the latest quality review with the auditor, including whether the PIE company has been subject to quality review and, if so, the result hereof.
- In light thereof, assess whether this gives rise to special considerations, including requesting the replacement of the signing auditor or election of a new auditor.

e) <u>Monitor other matters</u>
- Monitor other matters that the audit committee may deem necessary and other tasks that the board of directors may request the audit committee to prepare or assess.

f) Reporting

- Report to the board of directors the outcome of the audit committee's work.
- Prepare proposals for reporting in the annual report and financial reporting on the audit committee's work.

g) Evaluation

- Carry out an evaluation of the work performed by the audit committee and the terms of reference and report to the board of directors.

h) Meetings

- Hold meetings prior to presenting external financial reporting in the form of annual reports, interim reports, prospectuses etc. and/or other financial reporting.
- Hold regular meetings with the external auditors and the internal auditors without the participation of the executive board.

5 RISK COMMITTEE (EXAMPLE OF AN ADDITIONAL PERMANENT COMMITTEE)

The board of directors should consider whether the company is subject to particular exposure or whether there are other matters, which may justify setting up additional committees. This may contribute to better utilization of the board of directors' special qualifications. An example of such additional committee might be a risk committee, unless such tasks are covered by the audit committee.

Terms of reference for a risk committee may include the following:

I. Purpose:

The risk committee is established for the purpose of ensuring that the company's internal control and risk management systems properly address the company's exposure to risks.

The risk committee's role is solely preparatory to the consideration by the board of directors, and the committee must therefore present detailed accounts of its deliberations for the board of directors' consideration.

II. The tasks of the risk committee:

a) Core tasks:

- Monitor the company's long-term and short-term risk management and submit proposed policies for risk management for the board of directors' approval.
- Contribute to strengthening the company's general approach to risks.
- Monitor whether risks are identified, accepted, eliminated, increased or decreased and in compliance with adopted policies.
- Monitor that the executive board, on a current basis, reports to the board of directors on developments within the most important areas of risk, including compliance with adopted policies, frameworks etc.
- Monitor the CRO (Chief Risk Officer)/the Risk Management function.
- Monitor the executive board's follow-up on the CRO's/the Risk Management function's conclusions and recommendations.
- Monitor the appointment, employment and/or dismissal of the CRO.
- Monitor the CRO's and the Risk Management function's independence, qualifications, manning and work.
- Monitor and assess the CRO's and the Risk Management function's budget and submit the budget to the board of directors for approval.
- Perform self-evaluation.

b) Other potential tasks:

- Monitor other matters relating to the above-mentioned tasks, which, at the discretion of the risk committee are deemed necessary; as well as other tasks, which the board of directors may request the risk committee to prepare or assess.
- Ongoing cooperation with the audit committee in relation to, inter alia, the risks related to the presentation of the financial statements and the references made to risk management, uncertainties in respect of estimations and financial risks etc. in relation to the presentation of the financial statements.
- Monitor that stress tests are carried out in significant areas, and assess the outcome hereof and communicate it to the board of directors.