

GUIDELINES FOR EVALUATION OF THE BOARD OF DIRECTORS

Guidelines for evaluation of the board of directors, updated 29 August 2018
Recommendations on Corporate Governance, November 2017

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EVALUATION OF THE BOARD OF DIRECTORS

The Committee on Corporate Governance recommends (recommendation 3.5.1) that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members' contribution and results as well as the cooperation with the executive board. Among other factors, the evaluation should include an assessment of the chairman's leadership, the composition of the board of directors (including competencies, diversity and number of members), the work in the committees and the committee structure, and the organisation and quality of the material submitted to the board of directors. External assistance should be obtained at least every three years.

The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions at the general meeting prior to the election of the board of directors (recommendation 3.5.1).

The Committee has prepared these guidelines which are to be used as inspiration when working with the evaluation of the board of directors. The report on Corporate Governance should solely be prepared on the basis of the Committee's specific recommendations – and not according to comments on the individual recommendations or guidelines.

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

1 PURPOSE

The evaluation process must form the basis for an objective and constructive assessment of the quality of the work of the board of directors, including the board's procedures, working method and its cooperation (internally among the board of directors as well as with the executive board), the chairman's preparation of meetings and the efficiency and quality of the material submitted to the board of directors (both prior to meetings as well as the subsequent documentation).

Based on prior experience, a difficult but particularly important purpose of the board of directors' self-evaluation is to ensure that the board of directors, at all times through its composition and function, supports the company's interests with regards to shareholders and other stakeholders in the best possible way.

These guidelines will primarily focus on people related aspects of the board of directors' self-evaluation.

It is important to find the right balance between continuity and renewal. Renewal is necessary in order to ensure:

- proper succession on the board of directors;
- that the competencies and the composition of the board of directors match the company's present and future opportunities and challenges;
- that the board of directors at all times is composed of members, who can act independently and objectively in relation to previous decisions that have been made; and
- that a member of the board of directors who does not create adequate value, is replaced.

Experience shows that an undue replacement of a member of the board members "before their time" of directors can be a difficult process, which is why an annual, transparent and objective procedure can support the necessary succession.

2 OWNERSHIP OF THE EVALUATION PROCESS

The evaluation of the board of directors is headed by the chairman of the board of directors (the evaluation may potentially also be headed by the chairmanship or the nomination committee).

3 SELECTION OF EVALUATION PROCEDURE

The chairman of the board of directors (potentially the chairmanship or the nomination committee) shall annually recommend the evaluation procedure to the board of directors, who will discuss and decide on the procedure prior to the evaluation.

Reporting on the attendance of meetings of the board of directors and the committees should be included as part of the evaluation and should appear in the management commentary, cf. recommendation 3.3.2.

4 THE EVALUATION PROCEDURE

An evaluation of a board of directors may be completed in many ways. It is not possible to describe what evaluation procedure will work best for each individual company, however, a key aspect is that the evaluation should take place in an atmosphere that is transparent and constructive for the board of directors, where each member of the board of directors is given the opportunity to comment on all relevant issues.

Possible approaches to conducting an evaluation may be, that:

- The chairman of the board of directors sends out a questionnaire to all members of the board of directors, and the responses form the basis of a formalised dialogue between the chairman and the individual members of the board of directors
- The chairman conducts an interview with each individual member of the board of directors. The chairman compiles the results and comments in order for them to be discussed at a meeting of the board of directors chaired by the chairman
- External assistance should be obtained at least every three years
- The evaluation of the chairman is conducted by another member of the board of directors, e.g. the vice chairman.

With regards to the report on corporate governance which is prepared in connection with the presentation of the annual report for financial years beginning on or after 1 January 2018, it will be relevant to include external assistance in connection with any board evaluation conducted prior to the annual general meeting in 2019, in order to comply with the recommendation, unless external assistance has been obtained in connection with board evaluations completed prior to the annual general meeting in 2017 or later.

5 CONTENT OF THE EVALUATION

The evaluation should be carried out in a way that best covers the quality of the work performed by the board of directors in connection with the overall strategic management and supervisory functions for the purpose of value creation. The following issues may be relevant to include in the evaluation, e.g. by using a questionnaire, as mentioned above:

- The participants' assessment of the composition of the board of directors in relation to the company's current and future opportunities and challenges, including its competencies, diversity and number of members
- The participants' assessment of the efficiency of the board of directors
- The participants' assessment of the board of directors' form of cooperation and the working relation among the members
- The participants' assessment of the board of directors' contributions and results
- The participants' assessment of the work performed in the committees and the committee structure
- The organisation of the work and quality of the material submitted to the board of directors
- The participants' assessment of the cooperation with the executive board, including

- the ability of the executive board to provide information and submit relevant subjects for discussion to the board of directors; and
- the ability of the board of directors to provide relevant feedback to the executive board.
- The participants' assessment of the chairman's ability to lead the board of directors and to contribute to the cooperation among the board of directors, as well as the executive board.
- The participants' assessment of the benefits that the board of directors derives from the board committees and of the reporting by these committees.

To the extent that a questionnaire is used, use of a scoring system and the option of providing comments on the individual questions is recommended so that it allows for a comparison of the responses.

Reporting on board and committee meeting participation may naturally be included as part of the evaluation and should be included in the management commentary, cf. recommendation 3.3.2.

The Recommendations on Corporate Governance do not set out a specific limit on the number of management functions (overboarding), but leaves it to the individual company's board of directors to assess if the total amount of management functions for each individual board member can be conducted at a satisfactory level for the company.

Also, the evaluation should include:

- Evaluation of the overall contribution and efficiency of the board of directors
- Each board member's self-evaluation as well as the contribution and efficiency of other board members
- Each board member evaluates the board committees, including the board committees that the board member serves on.

6 PREPARATIONS PRIOR TO THE EVALUATION PROCEDURE ON THE BOARD OF DIRECTORS

It is recommended that the chairman and if applicable, the nomination committee plan the following subjects for the board evaluation discussions in advance of the evaluation:

- The competence requirements for the company's board of directors considering the company's situation and expected development
- The competence profile of the individual members of the board of directors and the board of directors in general
- The result of the chairman's preparatory work in the form of interviews with the individual members of the board of directors and the result of the questionnaire survey (if any)
- Shortcomings in competencies of the members of the board of directors, considering the requirements in relation to the competence profile, the company's future opportunities and challenges, the need for a proper succession as well as the performance of each individual member of the board of directors
- Considerations in respect of improving the competencies of the board of directors and/or of the individual members
- Considerations in respect of and/or proposals for planning the succession – now as well as in the future.

7 EVALUATION DISCUSSIONS AMONG THE BOARD OF DIRECTORS

It is recommended that the chairman of the board of directors:

- Initially provides a status on the action plan derived from the results of last year's evaluation of the board of directors;
- Involve the board of directors in the preparatory work and proposals for an action plan followed by a discussion hereof among the board of directors;
- Summarises the discussions and conclusions of the board of directors and from the action plan derived thereof.

The board of directors must note that the overall conclusions should be described in the management commentary and on the company's website.

8 THE EXECUTIVE BOARD'S INVOLVEMENT IN THE EVALUATION PROCEDURE

It is relevant to determine whether the executive board should participate in the evaluation, i.e. participate in the interview process and/or answer the questionnaire. Since an important part of the evaluation is to establish how well the board of directors and the executive board cooperate, it is recommended that the CEO/executive board participate in and provide input on the evaluation of the board of directors.