

Corporate Governance in Denmark -  
recommendations for good corporate  
governance in Denmark

Second part in  
The Nørby Committee's report

## INTRODUCTION

### Background

Over the past 15-20 years, the international arena has witnessed a significant public debate about which major principles should be employed to govern companies. The general term for these principles is corporate governance, a concept that is difficult to translate into Danish. In our opinion the concept can be defined as:

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

Initially, the corporate governance debate arose partly in response to pressure from the increasingly prevalent institutional ownership, and partly in response to financial scandals at the end of the 1980s. Thus the report "Financial Aspects of Corporate Governance" from 1992, better known as the "Cadbury report", was a direct reaction to the so-called BCCI bank scandal.

The Cadbury report contained a number of specific recommendations regarding good corporate governance also called "best practice" or "code of conduct". The aim was to meet the demands of the institutional owners and to prevent new business and financial scandals.

The debate has more recently moved from primarily being driven by a wish to stimulate "owner activism" and increase the supervision of the management, to having a broader view of the company and its relationship with its other stakeholders. In line with this, the Danish debate about the relationship between the board and the management has also changed its focus from a narrow control and supervision perspective to a broader and more forward-looking strategic perspective.

In the report, we provide the background to the corporate governance debate and we follow the debate thematically until today. Approximately 30 countries and a number of international organisations have now brought forward recommendations for what is seen as good or appropriate corporate governance. The originators of the recommendations have very different backgrounds and include people from government appointed committees, institutional investors and individual organisations.

It may seem surprising that until now this debate has only been carried on sporadically in Denmark, and until now it has not resulted in a set of recommendations regarding corporate governance which are adjusted to Danish circumstances, especially considering Denmark is part of the globalisation of both capital markets and companies that has taken place increasingly in recent decades.

By this we have in a sense replied positively to the question which the Ministry of Business and Industry posed in its mandate in connection with the establishment of this committee: Is there a need for a set of recommendations – or a code of conduct – regarding corporate governance in Denmark?

We believe that the answer is a distinct “yes”. The answer is due to the realisation that things can always be done in a better way and that there is a need to continuously develop and adjust the companies’ managements to new or changing demands. This has also influenced the attitude of international and Danish institutional investors and other stakeholders. Besides, why should we, who in our own companies learn by using benchmarking, not be inspired by an extensive international debate on corporate governance and use this inspiration to improve the work of the company management? Is it fair to say that Danish companies, which not only operate in a small open (and therefore) vulnerable national economy but who are already players on the global market, can ignore the demands which the corporate governance debate tries to meet?

Even though we believe that it is necessary to deal with corporate governance issues in Denmark, the answer must still be reasoned and qualified.

In our opinion, it is important that there is a continuous development and adjustment of the way the work in the management bodies is organised and performed, so that these management bodies are capable of solving their managerial tasks as best as possible at any time. Therefore, our ambition has been to present a proposal for a set of recommendations regarding corporate governance which build on the existing legislation, and at the same time, contain the best elements from the international recommendations, however, adjusted to specific Danish circumstances and needs.

The aim of our work has not been to develop a set of detailed ground rules of how Danish companies must be managed. Each individual company has the privilege to formulate such principles itself if so desired. Our ambition is different. Inspired by, in particular, the international debate, we would like to present a proposal for a set of recommendations for what we perceive as good corporate governance in Denmark. In this way, we see ourselves being the agent, rather than the innovator - and least of all the moralist.

Apart from what has been mentioned, we have put special emphasis on the four following points in our efforts to prepare a set of Danish recommendations regarding corporate governance.

First of all, we believe it is important that the recommendations are *operational*. This implies a certain experience with both company management and board work. It is our ambition that it should be possible to use the recommendations in practice. Therefore, in addition to the actual recommendations, we have compiled a number of practical examples of how both Danish and international companies work with corporate governance. By this we wish to underline the diversity as well as the flexibility in the matter of the practical implementation of corporate governance measures. There must be room for the diversity of different business types and ownership structures which characterise Danish companies.

Secondly, and this is an important point, the companies must be able to follow the recommendations *by their own accord*. In other words: The recommendations are not binding and cannot be enforced by any court of law. In this the nature of the recommendations presented in this report differs fundamentally from the legal regulation of this field. Contrary to legislation, recommendations of a proposed nature are more suited for capturing changes by continuously being adjusted to the often very changeable reality which the companies are part of. Legislation will always be influenced by a certain degree of inertia and inherently often be characterised by "minimum requirements". Non-binding recommendations characterised by best practice standards can contribute to companies following a higher standard. It should also be mentioned that legislation will not consider the diversity of companies in question in the same way without becoming unnecessarily detailed and inflexible or resulting in broad framework legislation. Thus the committee believes that non-binding recommendations have several advantages which make them an appropriate tool in a corporate governance context.

Thirdly, we would like to indicate that it can also be in the companies' *own interest* to undertake this type of self-management in which the stage is set for in a situation in which, now more than ever, the companies' social responsibilities are in focus.

Finally, we also think it is important that the companies *state* to what extent they follow the recommendations.

### **Objective**

In our opinion there are several objectives in preparing recommendations for good corporate governance:

- to make it more attractive to invest in Danish listed companies and to improve Danish companies' **access to funds** by attracting foreign investments among others.
- to inspire Danish companies as well as their directors and managers to tackle the **strategic challenges** resulting from the globalisation, and in so doing, strengthen the companies' competitiveness.
- to promote good corporate governance in Danish companies by stimulating the **debate** about corporate governance.

Apart from the stated objectives the recommendations will hopefully be able to support the changed Danish share culture, which has led to even more individuals owning shares, by creating increased confidence in the companies. In addition to this, an increased focus on the managements of the company and their work may very well mean that the quality of the managements' work is lifted in general.

### **Basic values**

Globalisation's increasing importance and influence on the companies places a very large responsibility on the managements of the companies and places heavy demands on the companies' competitiveness. At the same time, the globalisation limits the possibilities of the national governments to influence and control the frameworks which the companies must act

within. This means that to a large extent it is the corporate sector itself which ensures that the companies are run efficiently and competitively and that they observe their duty to act responsibly.

By preparing these recommendations we would like to assist Danish companies in having a good basis for accepting this responsibility.

The recommendations from OECD operate with several basic values such as *openness*, *transparency*, *responsibility* and *equality of treatment*. The committee is convinced that these values are universal and essential in connection with managing and running a company today. In the committee's opinion basing these values on the future way of managing a company can ensure a positive development in relation to the company's shareholders and other stakeholders.

*Openness* is important in relation to the company, providing the information which must be presumed to be important for the possibilities of the shareholders and other stakeholders to continuously evaluate and relate to the company. Openness towards both shareholders and other interested parties helps establish a successful co-operation between the management of the company and the company's shareholders and other stakeholders.

*Transparency* regarding how the company is managed is a prerequisite for the confidence the shareholders and the other stakeholders have in the company, and at the same time, transparency gives anyone with an interest in the company the possibility to constructively influence the development of the company. Transparency in the way the directors and the managers work and their basis for decisions provides the shareholders with a better position to exercise their rights and use their influence.

*Responsibility* towards both shareholders and other stakeholders helps ensure that the company's long-term interests are safeguarded by building up and developing mutual confidence.

*Equality of treatment* regarding the treatment of shareholders is a fundamental principle which ensures that all shareholders in the same class of shares are treated as equals.

### **Adoption of good corporate governance**

However, the important thing is not only whether a company will follow the recommendations or not. It is equally important that the process of seriously working with the corporate governance issues leads to awareness, and through that, resources which will make the companies able to act and anticipate the specific problems and challenges which arise all the time.

Good corporate governance is only achieved if the recommendations are backed by the right culture, ethics and professionalism. We wish to stress that compliance with the recommendations will not only lead to good results. Good corporate governance implies that the management is genuinely willing to work with these recommendations and to take an active part in the process.

It is characteristic – many will probably claim it is a hallmark – of the Danish political culture that reforms and regulations, large as well as small, usually arise out of a close collaboration between the Government and the involved trade organisations. Such a system has several

advantages. It incorporates the necessary expertise. It establishes a consensus on the regulation or the reform. It ensures that the implementation is supported and accepted.

This report's recommendations regarding corporate governance have not been prepared in that way. That may pose a risk but it can also be an advantage. Hopefully, this atypical process of preparation is suited to the kind of self-management and non-legal regulation that we are considering.

Even though the proposal for recommendations was not created in the traditional way that does not mean we have been working in a vacuum. First and foremost, we have had professional and competent assistance from the secretariat under the Danish Commerce and Companies Agency which has been of service to the committee. The secretariat is composed of Peter Haisler, Allan Braad Larsen and Sanne Dahl Laursen, the Danish Commerce and Companies Agency, and Erik Bruun Hansen of Copenhagen Stock Exchange. In addition to this, we have talked to several individuals, experts, company representatives and organisation representatives which have made it possible for us to account for our work, and even more importantly, they have provided us with inspiration and advice. Without a doubt they have played a part in raising the quality of our work, something which we are grateful for.

However, we are responsible for the report and the proposal for Danish recommendations regarding corporate governance and we hereby accept this responsibility.

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## RECOMMENDATIONS FOR GOOD CORPORATE GOVERNANCE IN DENMARK

The recommendations are divided into two parts: some general rationals and some specific and operational guidelines respectively. The general rationals describe why, in the opinion of the committee, it is important to deal with each of the seven main areas which are part of the recommendations. Subsequently, the rationals are elaborated along more operational and specific guidelines. Together they constitute the committee's recommendations.

The committee's recommendations for good corporate governance are first and foremost directed towards listed companies and companies aiming at a listing. However, the committee hopes that the recommendations or parts thereof will also prove to be an important tool for other businesses. The committee believes there ought to be placed more stringent and more comprehensive demands on listed companies than on unlisted companies. The committee recommends that state companies should comply with the recommendations to the extent it is relevant, since these companies, within certain areas, are regulated in the same way as listed companies in relation to company law. Listed companies may have a need to deal with the recommendations precisely due to their specific ownership basis.

In general, the recommendations should be seen as a supplement to the existing laws. In addition to this, listed companies are governed by the rules issued by the Copenhagen Stock Exchange. The company's publication of information and its continuous dialogue with shareholders and investors must be in accordance with the rules which apply for this, including the Rules for listing on the Copenhagen Stock Exchange.

The recommendations include the following seven main areas:

- **I.** The role of the shareholders and their interaction with the management of the company
- **II.** The role of the stakeholders and their importance to the company
- **III.** Openness and transparency
- **IV.** The tasks and responsibilities of the board
- **V.** The composition of the board
- **VI.** Remuneration to the directors and the managers
- Risk management

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

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

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

#### 1. Exercise of ownership and communication

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

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

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

If these restrictions are already part of a company's Articles, it is recommended that the board evaluates the expediency of this and accounts for its evaluation of whether a revocation of these restrictions is desirable and possible in the annual report.

#### 3. Preparation for the AGM including notice of meeting and authorisation

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

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

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

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

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

develops the company with due consideration of its stakeholders, and that the management provides an incentive for a dialogue with these.

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

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

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

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

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

### **III. Openness and transparency**

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

#### 1. Information and publication of information

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

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

## 2. Investor relations

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

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

## 3. Company report

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

## 4. Additional information

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

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

## 5. Quarterly reports

It is recommended that companies use quarterly reports.

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

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

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

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

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

### 2. The chairman's tasks

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

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

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

### 3. Procedures

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

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

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

## **V. Composition of the board**

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

### **1. Recruitment and election of directors**

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

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

### **2. Training and introduction for directors**

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

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

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

### **3. The number of directors**

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

#### 4. The board's independence

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

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

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

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

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

#### 5. Meeting frequency

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

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

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

#### 7. Retirement age

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

### 8. Election period

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

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

### 9. Use of board committees

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

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

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

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

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

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

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

## **VI. Remuneration to the directors and the managers**

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

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

### **1. Principles of establishing incentive schemes**

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

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

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

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

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

### **3. Redundancy schemes for the managers**

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

## **VII. Risk management**

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

### **1. Risk management**

The purpose of risk management is:

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

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

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

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