Statutory Annual Corporate Governance Report for 2018,
 cf. Section 107b of the Danish Financial Statements Act
Corporate Governance

This Statutory Corporate Governance Report forms part of the management’s review in the Annual Report for 2018, covering the period January 1 - December 31, 2018 and is prepared pursuant to Article 107b of the Danish Financial Statements Act.

The report includes the recommendations of the Committee on Corporate Governance (Komitéen for god selskabsledelse) and should be interpreted in accordance with the rules for companies listed on Nasdaq Copenhagen.

These recommendations are found at: https://corporategovernance.dk/recommendations-corporate-governance

The Company’s report on compliance with these recommendations on page 7-16 has not been subject to audit or review.

Management of Bavarian Nordic

Bavarian Nordic is managed in a two-tier structure composed of the Board of Directors (“the Board”) and the Corporate Management. The Board is responsible for the overall strategic management and the financial and managerial supervision of Bavarian Nordic, as well as for regular evaluation of the work of the Corporate Management. In addition, the Board supervises the Company in a general sense and ensures that it is managed in an adequate manner and in accordance with applicable law and the Company’s articles of association.

The Corporate Management is appointed by the Board, which lays down their terms and conditions of employment and the framework for their duties. The Corporate Management is responsible for the day-to-day management of Bavarian Nordic in compliance with the guidelines and directions issued by the Board. The day-to-day operations do not include transactions of an unusual nature or of material importance to the affairs of Bavarian Nordic.

As of December 31, 2018, the Corporate Management consisted of Paul Chaplin, President and CEO of the Company. Moreover, there are three Executive Vice Presidents who assist Corporate Management in the day-to-day operations of the Company.

The work and composition of the Board

The Board consists of six external members elected by the shareholders at the annual general meeting for terms of one year; retiring members are eligible for re-election. The Board elects a chairman from among its members. Currently the Board has no employee-elected members as there has been no such request from the employees. The Board discharges its duties in accordance with the rules of procedure of the Board, which are reviewed and updated by all members of the Board. In 2018, the Board held eleven meetings, of which four were conference calls.

The following members were elected to the Board at the annual general meeting in 2018:

- Gerard van Odijk (Chairman)
- Anders Gersel Pedersen (Deputy chairman)
- Peter Kürstein
- Erik G. Hansen
- Frank Verwiel
- Elizabeth McKee Anderson

Board Committees

To support the Board in its duties, the Board has established and appointed a Finance, Risk and Audit Committee and a Nomination and Compensation Committee. These committees are charged with reviewing issues pertaining to their respective fields that are due to be considered at board meetings. Written charters specifying the tasks and responsibilities for each of the committees are available on the Company’s website www.bavarian-nordic.com.

Finance, Risk and Audit Committee

The Board has elected the following members to the Finance, Risk and Audit Committee:

- Erik G. Hansen (Chairman)
- Anders Gersel Pedersen
- Frank Verwiel

In 2018, the committee held seven meetings, including one conference call and dealt with the following main matters:

- Reviewed and proposed to the Board the annual report 2017 & CSR report 2017 to be approved
- Reviewed and proposed to the Board the quarterly statements for Q1, Q2 and Q3 of 2018 to be approved
- Reviewed and proposed to the Board the auditor’s audit book comments and the audit plan to be approved
- Monitored and controlled the auditors’ independence, objectivity and competence
- Reviewed and proposed to the Board the election of auditors at the next AGM
- Monitored and reported to the Board about significant accounting policies; significant accounting estimates; related party transactions; and uncertainties and risks, including in relation to the outlook for the current year
- Monitored and reported to the Board about capital resources and structure
- Discussed audit legislation and key issues with the auditors
- Monitored the internal currency, investment, counterpart and financing policies
- Reviewed and assessed the reports on the internal control and risk management systems
- Reviewed the Company’s internal control and risk management process
- Reviewed and assessed the Company’s insurance coverage
- Met with the auditors without the CFO or other members of the Executive Management
- Assessed the need of an internal audit function
- Reviewed and proposed to the Board the procedures of the committee to be approved
- Made a self-evaluation of the committee’s work and performance
- Updated the annual wheel for activities in the committee
- Reviewed and approved update of procedure for approval on non-audit services from appointed auditors.
- Monitored and discussed the handling of ongoing discussions with the Danish tax authorities regarding tax handling of the PROSTVAC project.

Nomination and Compensation Committee
The Board has elected the following members to the Nomination and Compensation Committee:

- Gerard van Odijk (Chairman)
- Peter Küster
- Elizabeth McKee Anderson

In 2018, the committee held eight meetings, including one conference call and dealt with the following main matters:

- Reviewed and proposed to the Board the remuneration levels for 2018 for the Board and its sub-committees to be approved by the Annual General Meeting
- Reviewed the remuneration levels for 2018 for the Executive Management
- Reviewed the short and long-term incentive programmes for the Executive Management and other members of the senior management and recommended to the Board the structure of the programmes for 2018
- Assisted with the preparation of the annual remuneration report
- Performed a Board and Executive Management assessment process
- Performed a Board and Executive Management composition review, including desired competences and qualifications required by the Board and Executive Management and an assessment of their combined competences
- Discussed long term succession planning for the Board, including the future composition of the Board
- Interviewed and discussed candidates for the position as the Company’s new CFO
- Discussed the Company’s activities to ensure relevant diversity at management level

Remuneration of the Management
For detailed information on remuneration of the Board and Executive Management, see the remuneration report in the annual report.
**Risk Management**

Bavarian Nordic sees risk management as an integrated part of the Company’s operations and applies a bottom-up/top-down approach to identify and manage risks. Key risks are first identified via a bottom-up process and reported to management with description of mitigating actions being taken to reduce risk or mitigate potential impact. Residual risk is mitigated by insurance cover where relevant and possible. Major risks are reported to the Finance, Risk & Audit Committee (FRAC) and discussed at FRAC meetings. The Board of Directors regularly receives reports on these initiatives, which then form part of the Board’s overall assessment and decisions about the Company’s activities and future. The table below summarizes some of the key risks that are important to Bavarian Nordic’s business including examples of mitigating actions.

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Risks</th>
<th>Mitigating actions</th>
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</table>
| Development                  | The development of a product can be delayed or even abandoned. The process involves pre-clinical and clinical tests as well as regulatory approval and even approval of manufacturing facilities in some cases. All steps through development are associated with risks and can fail. | - Close dialogue with authorities (e.g. FDA) to secure optimal path to approval and compliance with GMP etc.  
- Strong quality system in place to ensure compliance with standards agreed with and required by authorities.  
- Use of adaptive trial designs to minimize financial risk and impact of failure. |
| Laws and regulations         | Not complying with laws and regulations could damage the Company’s reputation, result in significant fines and impede the Company’s ability to operate. | - Internal legal resources available.  
- Monitor development in relevant laws and regulations.  
- Allocation of internal resources to secure adaptation of new rules and regulations. |
| Financing                    | Long periods with negative cash-flow will reduce the cash preparedness and could eventually make it difficult for the company to pursue the strategy involving a.o. investments in development and manufacturing facilities. | - Ensure good financial visibility by forecasting.  
- Secure optimal timing of income from partner agreements.  
- Keep spending and investment level at appropriate levels to stretch liquidity runway. |
| Cybersecurity                | Disruptions to IT systems, e.g. caused by virus attack, may happen and could have significant impact on the company’s ability to operate effectively. | - Internal procedures for continuous security monitoring and vulnerability assessment.  
- Continuous development of preventative measures.  
- Continuous internal IT security training to build awareness.  
- Annual security penetration tests and audits by third party. |
| Supply and manufacturing     | Disruptions to the supply chain caused by break-downs in facilities, third party supply and/or manufacturing issues or similar could have a significant impact on the ability to supply products and could impact both customer relations and financial performance. | - Internal quality audits, including mock inspections.  
- Secure adequate inventory strategy including dual sourcing.  
- Shelf-life extension initiatives. |
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<tr>
<th>Risk area</th>
<th>Risks</th>
<th>Mitigating actions</th>
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| **Partnering**                    | Partnering with other companies and government bodies in the industry is a central element of the Company’s strategy. Loss of partnerships, e.g. due to collaboration issues, failed projects or similar, could have a significant impact on the Company’s reputation and future performance. | • Frequent interactions with partners to build and maintain common understanding.  
• Processes in place to resolve potential issues.                                                                 |
| **Attraction and retention of talent** | Not being able to attract and retain sufficient talents could impact the Company’s ability to perform at high standards and compete against other companies. | • Perform employer branding.  
• Provide training and development.  
• Offer competitive remuneration package.  
• Identifying and working with key talents.                                                                 |
| **Intellectual property rights (IP)** | The validity of patents is crucial for the company to secure future revenues and return on the investments made in development. Patents might be challenged by competitors. | • Dedicated and experienced resources involved in the filing of patent applications to minimize vulnerability to future invalidity actions, and with ability to defend patents if such actions are filed. |
| **Currency exposure and tax disputes** | Significant fluctuations in the DKK/USD exchange rate will impact financial statements and potential disputes with tax authorities could result in additional tax payments. | • Aim to create natural hedges by matching income and expenses in USD.  
• Material net USD exposure is hedged using FX contracts or options.  
• Taxes are paid where the Company operates, and intercompany transactions are priced and governed by agreements in compliance with OECD’s transfer pricing guidelines.  
• Proactive work with tax authorities to ensure alignment on tax situation and avoidance of negative surprises. |
Internal Control

Financial reporting process
The Board of Directors and the Management of Bavarian Nordic are responsible for the Group’s control and risk management in connection with the financial reporting process, including compliance with rules and regulations that are relevant in reporting.

The Board has established a Finance, Risk and Audit Committee which reviews and discusses the accounting and audit practices with the Company’s auditors elected at the Annual General Meeting and the Corporate Management in accordance with the working framework of the committee.

Bavarian Nordic’s main focus is to ensure that its financial statements are in compliance and give a correct and reliable view of the Company’s operations and financial position.

Input to a written monthly management report is prepared by each line of business containing explanations for deviations in the central business areas within the Group. The inputs are combined into one group report that is distributed to the Corporate Management monthly. The Board of Directors receives a monthly executive summary of the Group’s performance.

The interim financial reports are prepared by group finance and discussed with the auditors.

The annual audit and reporting process includes detailed planning of individual tasks and planning meetings between investor relations (IR), group finance and the auditors, and it is based on an audit strategy approved by the Finance, Risk and Audit Committee.

Internal controls
Bavarian Nordic has policies and procedures for key areas of financial reporting as well as work plans for the month-end closing process, ensuring an in-depth analysis of deviations between actual performance, business plans and budgets, and updated estimates for the financial year. The monthly closing procedures also ensure that all relevant reconciliations are prepared and reviewed and that records coding is in accordance with the requirements and guidelines that the U.S. authorities have in relation to reimbursement of project costs. The accounting and controller functions are responsible for the monthly closing process and reporting to corporate finance.

Financial planning, follow-up and reporting is supported by a group reporting system that shows actual and budgeted financial figures down to the department and account level. All budget holders have access to the group reporting system, which is updated daily with direct links to the Group’s ERP system.

Risk assessment
At least once a year, the Finance, Risk and Audit Committee on behalf of the Board of Directors evaluates the risks connected with the financial reporting process, including the presence of internal controls and guidelines. The Finance, Risk and Audit Committee assesses the Group’s organizational structure, including the risk of fraud and the measures to be taken to reduce and/or eliminate such risk. In that regard, any incentive or motive from the Corporate Management to manipulate earnings or perform any other fraudulent action is discussed. The Group’s internal controls and guidelines provide a reasonable but not absolute certainty that unlawful use of assets, loss and/or significant errors or deficiencies in relation to the financial reporting process can be avoided.

The Board of Directors has decided not to institute an internal audit at Bavarian Nordic, based on its assessment that the Company’s size and complexity does not necessitate such a function.

Control environment
Risk assessment Information technology and computerized systems are widely used in almost any area at Bavarian Nordic. Several processes are automated and key decisions and actions are taken through electronic interfaces. In the ERP system, a number of user groups have been set up to ensure the required segregation of key functions in the finance department. Incoming invoices are approved electronically, and an approval hierarchy ensures that invoices are approved by the appropriate persons and according to the proxy rules of the Group. Payment proposals are approved through online banking and always by two staff members jointly.

The business procedures in the IT department ensure that all IT development is according to Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practice (GMP). There are effective procedures for identifying, monitoring and reporting IT risks and security measures set up to respond to emerging events.
The Corporate Governance Recommendations

Regularly and at least once a year, the Management monitors Bavarian Nordic’s adherence to the recommendations on corporate governance in order to ensure the best possible utilization of and compliance with the recommendations and legislation.

To the extent possible, the recommendations have been incorporated in the Company’s annual report and/or website.

The following table indicates the level of compliance with the recommendations of the Committee on Corporate Governance. As set forth in the recommendations, the Company has provided explanations if recommendations are not fully complied with.

The table has not been subject to audit or review.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Compliance</th>
<th>Commentary</th>
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<tbody>
<tr>
<td>1. Communication and interaction by the company with its investors and other stakeholders</td>
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<td>1.1. Dialogue between company, shareholders and other stakeholders</td>
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<td>1.1.1. The Committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders’ views, interests and opinions in relation to the company.</td>
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<td>1.1.2. The Committee recommends that the board of directors adopt policies on the company’s relationship with its stakeholders, including shareholders, and that the board of directors ensure that the interests of the stakeholders are respected in accordance with company policies.</td>
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<td>1.1.3. The Committee recommends that the company publish quarterly reports</td>
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<td>1.2. General Meeting</td>
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<td>1.2.1. The Committee recommends that in organising the company’s general meeting, the board of directors plans the meeting to support active ownership.</td>
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<td>1.2.2. The Committee recommends that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.</td>
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<td>1.3. Takeover bids</td>
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<td>1.3.1. The Committee recommends that the company set up contingency procedures in the event of takeover bids, from the time that the board of directors has reason to believe that a takeover bid will be made. The</td>
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<td>Recommendation</td>
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<td>contingency procedures should establish that the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which, in reality, prevent the shareholders from deciding on the takeover bid themselves.</td>
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2. Tasks and responsibilities of the board of directors

2.1. Overall tasks and responsibilities

2.1.1. The Committee recommends that at least once annually the board of directors consider the matters that should be included in the board’s performance of its work. ✓

2.1.2. The Committee recommends that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company. ✓

2.1.3. The Committee recommends that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company’s website. ✓

2.1.4. The Committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board’s reporting to the board of directors. ✓

2.1.5. The Committee recommends that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board. ✓

2.2. Corporate social responsibility

2.2.1. The Committee recommends that the board of directors adopt policies on corporate social responsibility. ✓

2.3. Chairman and vice-chairman of the board of directors

2.3.1. The Committee recommends appointing a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the event of the chairman’s absence, and who will also act as effective sparring partner for the chairman. ✓

2.3.2. The Committee recommends that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to
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<tr>
<td>ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman’s or other board members’ participation in day-to-day management and the expected duration hereof should be publicly announced.</td>
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<tr>
<td><strong>3. Composition and organization of the board of directors</strong></td>
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<td><strong>3.1. Composition</strong></td>
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<td>3.1.1. The Committee recommends that the board of directors annually evaluate and in the management commentary account for</td>
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<td>• the competencies that it must have to best perform its tasks,</td>
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<td>• the composition of the board of directors, and</td>
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<td>• the special competencies of each member.</td>
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<td>3.1.2. The Committee recommends that the board of directors annually discuss the company’s activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company’s website.</td>
<td>✔</td>
<td>Bavarian Nordic supports a diverse, accommodating and non-discriminatory working environment. The Company does not however measure diversity by other parameters than gender in all management levels, where an equal representation by men and women was maintained again in 2018 with 50% and 50% respectively. The Board of Directors discusses annually the Company’s activities to ensure the best competencies on all managerial levels. Managers are appointed merely based on their merits and not their nationality, age, gender etc., thus providing equal opportunities for all candidates that possess the required professional skills. For more information on the composition of employees, diversity and company policies, reference is made to Bavarian Nordic’s Statutory Report on Corporate Social Responsibility for the Financial Year 2018.</td>
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<tr>
<td>3.1.3. The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.</td>
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<td>3.1.4. The Committee recommends that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates’</td>
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<td>• other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and</td>
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Recommendation | Compliance | Commentary
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• demanding organisational tasks. |  |  
Furthermore, it should be indicated if the candidates to the board of directors are considered independent.

3.1.5. The Committee recommends that members of the company’s executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.

3.1.6. The Committee recommends that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.

3.2. Independence of the board of directors

3.2.1. The Committee recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.

To be considered independent, this person may not:

• be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary or an associated company,
• within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,
• represent or be associated with a controlling shareholder,
• within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company.
• be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,
• be part of the executive management in a company with cross-management representation in the company,
• have been a member of the board of directors for more than 12 years, or
• be a close relative with persons who are not considered independent.

Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.

3.3. Members of the board of directors and the number of other management functions
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<th>Recommendation</th>
<th>Compliance</th>
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<tr>
<td>3.3.1. The Committee recommends that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.</td>
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<td>3.3.2. The Committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</td>
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<td>• the position of the relevant person,</td>
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<td>• the age and gender of the person in question,</td>
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<td>• the person’s competencies and qualifications that are relevant to the company</td>
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<td>• whether the member is considered independent,</td>
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<td>• the member’s date of appointment to the board of directors,</td>
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<td>• expiry of the current election term,</td>
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<td>• the member’s participation in the meetings on the board of directors and committee meetings,</td>
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<td>• other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and</td>
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<td>• the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member’s portfolio of the mentioned securities which have occurred during the financial year.</td>
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<td>3.3.3. The Committee recommends that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.</td>
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<td>3.4. Board committees</td>
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<td>3.4.1. The Committee recommends that the company publish the following on the company’s website:</td>
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<td>• the terms of reference of the board committees,</td>
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<td>• the most important activities of the committees during the year and the number of meetings held by each committee, and</td>
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<td>• the names of the members of each committee, including the chairmen of the committees, as well as information regarding which members are independent members and which members have special competencies.</td>
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<td>3.4.2. The Committee recommends that a majority of the members of a board</td>
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<td>The committee be independent.</td>
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<td>3.4.3. The Committee recommends that the members of the board of directors set up an audit committee and that a chairman is appointed who is not the chairman of the board of directors.</td>
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| 3.4.4. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:  
  - significant accounting policies,  
  - significant accounting estimates,  
  - related party transactions, and  
  - uncertainties and risks, including in relation to the outlook for the current year. | ✔️ | |
| 3.4.5. The Committee recommends that the audit committee:  
  - annually assesses the need for an internal audit function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,  
  - ensure that if an internal audit has been established, a description of its functions is available and approved by the board of directors,  
  - ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and  
  - monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function. | ✔️ | |
| 3.4.6. The Committee recommends that the board of directors establish a nomination committee, which is at least, responsible for the following preparatory tasks:  
  - describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,  
  - annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,  
  - annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,  
  - recommending candidates for the board of directors and the executive board, and  
  - proposing an action plan to the board of directors on the future | ✔️ | |
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<td>composition of the board of directors, including proposals for specific changes.</td>
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3.4.7. The Committee recommends that the board of directors establish a remuneration committee, which is at least, responsible for the following preparatory tasks:
- recommending the remuneration policy (including the “General Guidelines for incentive-based Remuneration”) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,
- making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring that the remuneration is in compliance with the company’s remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on the total remuneration that members of the board of directors and the executive board receive from other companies in the group,
- recommending a remuneration policy applicable for the company in general and
- assisting with the preparation of the annual remuneration report.

3.4.8. The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company. ✔

3.5. **Evaluation of the performance of the board of directors and the executive board**

3.5.1. The Committee recommends that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:
- contribution and results,
- cooperation with the executive board,
- the chairman’s leadership of the board of directors,
- the composition of the board of directors (including competencies, diversity and the number of members),
- the work in the committees and the committee structure, and
- the organisation and quality of the material that is submitted to the board of directors.

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 on the general meeting prior to the election of the board of directors.
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<td>3.5.2.</td>
<td>The Committee recommends that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company’s strategy.</td>
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<td>3.5.3.</td>
<td>The Committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer, and that the outcome of the evaluation be presented to the board of directors.</td>
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**4. Remuneration of management**

**4.1. Form and content of the remuneration policy**

4.1.1. The Committee recommends that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes:

- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
- the reasons for choosing the individual components of the remuneration,
- a description of the criteria that form the basis for the balance between the individual components of the remuneration, and
- an explanation for the correlation between the remuneration policy and the company’s long-term value creation and relevant related goals.

The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and it should be published on the company’s website.

4.1.2. The Committee recommends that if the remuneration policy includes variable components,

- limits be set on the variable components of the total remuneration package,
- a reasonable and balanced composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,
- clarity be established about performance criteria and measurability for the award of variable components,
- it is ensured that variable remuneration not only consists of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years.

The remuneration policy includes variable components which meet the criteria set forth in the recommendation, with the exception of item 5 as no reclaim clauses exist in contracts for members of Executive Management.
years, and

- it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.

4.1.3. The Committee recommends that remuneration of members of the board of directors does not include share options or warrants.

4.1.4. The Committee recommends that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.

4.1.5. The Committee recommends that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.

4.2. Disclosure of remuneration

4.2.1. The Committee recommends that the company’s remuneration policy and compliance with this policy be explained and justified annually in the chairman’s statement at the company’s general meeting.

4.2.2. The Committee recommends that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.

4.2.3. The Committee recommends that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained. The remuneration report should be published on the company’s website.

5. Financial reporting, risk management and audits

5.1. Identification of risks and transparency about other relevant information

5.1.1. The Committee recommends that the board of directors consider and in the management commentary account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company’s risk management.

5.2. Whistleblower scheme
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<tr>
<td>5.2.1. The Committee recommends that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.</td>
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<td>5.3. <strong>Contact to auditor</strong></td>
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<td>5.3.1. The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.</td>
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<td>5.3.2. The Committee recommends that the audit agreement and auditor’s fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.</td>
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