

Statutory report on

# Corporate Governance 2016

Statutory report on Corporate Governance for the financial year 2016, cf. section 107b of the Danish Financial Statements Act<sup>1</sup>. This report is a supplement to the Management review in the Annual Report 2016 covering the period January 1 – December 31, 2016.

<sup>1</sup>In Danish, "Lovpligtig redegørelse for virksomhedsledelse, jf. årsregnskabsloven §107b"



## Corporate Governance Report for 2016

*Zealand's approach to corporate governance is founded on ethics and integrity, and forms the basis of our efforts to ensure strong confidence from our shareholders, partners, employees and other stakeholders have in us.*

As a company listed on Nasdaq Copenhagen A/S, Zealand Pharma A/S ("Zealand") follows Danish securities law and is guided by the Corporate Governance Recommendations issued by the Danish Committee on Corporate Governance, as adopted by Nasdaq Copenhagen A/S (the "Recommendations"). We are committed to providing reliable and transparent information about our business, development programs and scientific results in a clear and timely manner.

At Zealand, we regularly review our rules, policies and practices within Risk Management and Intern Control with the purpose of improving guidelines and policies for corporate governance, so that we meet our obligations to shareholders, employees, regulatory authorities and other stakeholders while maximizing long-term value.

Furthermore, the Board of Directors and the Senior Management constantly seek to ensure that Zealand's management structure and control systems are efficient and functioning properly. A number of internal procedures have been developed and are continuously updated in order to ensure active, secure and efficient management of the Company.



### Management

Zealand has a two-tier management structure composed of the Board of Directors ('the Board') and the Senior Management. The Board is responsible for the overall strategic management and the financial and managerial supervision of Zealand Pharma A/S as well as for regular evaluation of the work of the Senior 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 Board approves the policies and procedures, and Senior Management is responsible for implementing them on a day-to-day basis.

### **Nomination Committee**

The Nomination Committee is a committee that acts within the corporate governance area of Zealand. The current Nomination Committee consists of three members: The Annual General Meeting elects two members of the committee from among the members of the Company's Board of Directors as well as up to three shareholder representatives.

Members of the Nomination Committee are:

- Martin Nicklasson, Chairman of the Board
- Peter Benson, Shareholder representative
- Agnete Raaschou-Nielsen, Shareholder representative

The Nomination Committee specifies the qualifications required and evaluates the skills, knowledge and experience of the individual members of the Board and the CEO. It also considers proposals submitted by relevant persons, including shareholders, for Board and CEO positions, and identifies and recommends candidates for the Board.

The Nomination Committee held one physical meeting in 2016.

The rules of procedure of the Nomination Committee are available on:

[www.zealandpharma.com/nomination-committee/](http://www.zealandpharma.com/nomination-committee/)

### **Board of Directors**

The Board plays an active role in setting the Company's strategies and goals and in monitoring its operations and results. The Board functions according to its rules of procedure. Board of Directors duties include establishing Zealand's strategy, policies and activities to achieve the Company's objectives in accordance with its articles of association. These also define the responsibilities of the Board, for example ensuring that Zealand's bookkeeping, accounting, asset management, information technology systems, budgeting and internal control are properly organized.

The rules of procedure also provide guidelines for the division of responsibilities between the Board, the Senior Management, the Audit Committee, the Remuneration and Compensation Committee and the Nomination Committee.

The chairman supervises the Board's annual self-evaluation of its performance.

Zealand's Board of Directors comprises five members elected by the Annual General Meeting and three employee representatives. The Annual General Meeting appoints each member of the Board for a one-year term, where as employee representatives are elected for four-year terms.

- Martin Nicklasson, Chairman
- Rosemary Crane, Vice chairman
- Catherine Moukheibir
- Alain Munoz
- Michael J. Owen
- Jens Peter Stenvang, employee elected
- Hanne Heidenheim Bak, employee elected
- Rasmus Just, employee elected



In line with the Recommendations, the Board annually reviews and determines the qualifications and experience needed on the Board in respect of:

- Scientific knowledge within bioscience and innovation of pharmaceutical products, in particular diabetes research
- Financial experience and knowledge
- Experience in leading an innovative business and insight into the biopharmaceutical market
- Experience in handling partnering agreements
- Competency in ensuring that the obligations of a listed company are fulfilled

All five board members elected by the Annual General Meeting are considered "independent" in accordance with section 3.2.1 of the Recommendations.

The Board meets at least six times a year and whenever the chairman decides that it is necessary.

During 2016, there were six physical meetings and seven telephone meetings.

### **Board Committees**

The Board has established a number of committees to support the Board in its duties:

#### ***Audit Committee***

The Audit Committee assists the Board with oversight of financial reporting, internal control and risk management systems, and external audit of the annual report and control of the auditor's independence, including oversight of non-audit services and other activities delegated by the Board.

The Audit Committee members are:

- Catherine Moukheibir (chairman)
- Martin Nicklasson (member)
- Rosemary Crane (member)

In 2016, specific topics discussed included auditor's reports, accounting policies, internal controls and risk management, finance policy, insurance policy, year-end issues and external financing.

The Audit Committee held three physical meetings and two telephone meetings in 2016.

The charter of the Audit Committee is available on Zealand's website at:

[www.zealandpharma.com/audit-committee/](http://www.zealandpharma.com/audit-committee/)

#### ***Remuneration and Compensation Committee***

The Remuneration and Compensation Committee proposes the remuneration policy and general guidelines for incentive remuneration for the Board and the CEO of the Company, as well as targets for company-operated performance-related incentive programs. These policies and guidelines set out the various components of the remuneration, including fixed and variable remuneration such as pension schemes, benefits, retention bonuses, severance and incentive schemes, as well as the related bonus and evaluation criteria. The proposed remuneration policy and overall guidelines for incentive pay are subject to shareholder approval at the Annual General Meeting.

In 2016, specific topics discussed included warrant programs, company goals, employee salary levels, employee pensions, and CEO and Board compensation.



The Remuneration and Compensation Committee members are:

- Martin Nicklasson (chairman)
- Mike Owen (member)

The Remuneration and Compensation Committee held three meetings in 2016.

The Charter of the Remuneration and Compensation Committee, the Remuneration policy and Overall guidelines for incentive pay are available on Zealand's website at:

[www.zealandpharma.com/remuneration-and-compensation-committee/](http://www.zealandpharma.com/remuneration-and-compensation-committee/)

## **Senior Management**

The Board approves the policies and procedures, and Senior Management is responsible for implementing them on a day-to-day basis. Senior Management is responsible for the day-to-day management of Zealand in compliance with the guidelines and directions set by the Board. Senior Management is composed by the Executive Management and other members of the Senior Management and consists of:

### ***Executive Management***

- Britt Meelby Jensen, President and Chief Executive Officer (CEO)
- Mats Blom, Senior Vice President and Chief Financial Officer (CFO)

### ***Other members of the Senior Management***

- Adam Steensberg, Senior Vice President and Chief Medical and Development Officer (CMDO)
- Andrew Parker, Senior Vice President and Chief Scientific Officer (CSO)

## **Internal controls and risk management**

---

Zealand strives to conduct its operations in accordance with the highest ethical standards. As a knowledge-intensive company, there is a high focus on competency and personal development. The Management philosophy is based on a high degree of trust in the company's employees; however, policies and operational processes are well described, with regular reporting and controls. Operations are performed mainly within one legal entity, and all operations are based at one site in Glostrup, Denmark.

### ***Control environment***

Zealand has a number of internal control and risk management systems in place to ensure that its financial statements provide a true and fair view and comply with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements under the Danish Financial Statements Act. An annual evaluation – with particular emphasis on risk management and internal control related to financial reporting – is carried out to ensure that risks are managed in a responsible and efficient manner.

Zealand has several policies and procedures in key areas of financial reporting. The internal control and risk management systems are designed to mitigate, detect and correct material misstatements rather than eliminate the risks identified in the financial reporting process.

A review and prioritization of material accounting items is also performed. Items in the financial statements that are based on estimates or that are generated through complex processes carry a



relatively higher risk of error. Zealand performs continual risk assessments to identify such items and assess their scope and related risks.

The Board approves the policies and procedures, and Senior Management is responsible for implementing them on a day-to-day basis. The Board has established an Audit Committee to advise the Board.

The Board has concluded that it is not necessary to establish an internal audit function at Zealand in view of the Company's legal structure and size and the fact that operations are carried out at a single site.

### **Audit**

Zealand's external auditors are appointed for a term of one year by the shareholders at the Annual General Meeting, based on the recommendation of the Board. Before such recommendation and in consultation with the Audit Committee and the Executive Management, the Board assesses the independence, competencies and other matters pertaining to the auditors.

The framework for the auditors' duties, including their remuneration, audit and non-audit tasks, is agreed between the Board and the auditors, based on the recommendations of the Audit Committee.

### **Description of management reporting systems and internal control systems**

Zealand has management reporting and internal control systems in place that enable it to monitor performance, strategy, operations, business environment, organization, procedures, funding, risk and internal control. The Company believes that the reporting and internal controls are adequate to avoid misstatements in the financial reporting.

The management reporting and internal control systems include the following reports:

- Zealand's Ambition 2020+ and Three-Year Strategy plan
- Annual budget (anchor budget)
- Quarterly reports, including updates of annual and rolling 12-month estimates
- Monthly reports

Regular reporting by Management includes:

- Financial performance and position
- Comparison of budgeted and actual performance
- Analysis of cash flows
- Project management and cost control, identification of responsible project managers, and regular project reporting and follow-up
- Summaries of project management key performance indicators
- Controls on purchase and maintenance of assets
- Review of potential claims and litigation
- Review and updating of contracts and collaboration agreements to ensure that all commitments and liabilities are recognized as well as all incomes to which Zealand is entitled

In addition to the above-mentioned reports, the internal control system includes a number of detailed policies and procedures, including:

- Financial policy guiding investment of liquid assets



- Schedule of authorization guiding the sign-off of expenses and investments
- Employee manual providing guidance on policies, rules and procedures associated with employment at Zealand

Zealand also undertakes detailed controls to ensure the completeness and accuracy of accounting records.

Zealand's Management considers that the above high-level and detailed controls ensure effective financial reporting procedures.

### ***Risk assessment***

As part of the risk assessment process, a review and prioritization of material accounting items have been performed.

Accounting items with a high total risk profile have been analyzed and relevant controls described. The accounting items deemed to have a high risk profile are:

- Revenue recognition
- Counterparty risk for liquid assets
- Risk of fraud

It is Management's view that the current controls are sufficient to reduce the risk of significant errors in the financial statements.

### ***The end-of-period process***

In addition to controls of individual accounting items, it is important to maintain a high level of control over the different steps involved in transforming raw accounting data into final quarterly or annual reports.

The year-end process involves detailed documentation of each balance sheet item as well as documentation supporting all notes to the accounts.

Together with the auditors, Management reviews the accounting policies used and assesses any new accounting policies that might be relevant.

Any items where estimates and/or assessments influence the accounts are discussed with the Audit Committee as well as with the external auditors, and are described in Note 1 in the Annual Report.

### ***IT***

In addition to the controls performed by Management, Zealand's IT department has controls in place for IT user access to data, backups, data security, data theft and so on. A Cyber Awareness Training program for all employees is on-going.



## Risk management

---

Zealand's Management is responsible for implementing adequate systems and policies in relation to risk management and internal control, and for assessing the overall and specific risks associated with Zealand's business and operations. Furthermore, Zealand's Management seeks to ensure that such risks are managed optimally and in a responsible and efficient manner.

Doing business in the pharmaceutical/biotech industry involves major financial risks. The development period for novel medicines lasts several years; costs are high, and the probability of reaching the market is relatively low due to developmental and regulatory hurdles.

Risks of particular importance to Zealand are scientific and development risks, commercial risks, intellectual property risks, partner interest risks, financial risks and risks relating to financial reporting. Risk and mitigation plans are monitored by Management, and the continuous risk assessment is an integral part of the quarterly reporting to the Board.

Below we have summarized Zealand's key risk areas and how we attempt to address and mitigate such risks.

Environmental and ethical risks are covered in our corporate social responsibility reporting.

Risk related to	Risk description
<b>Commercial activities – Launched products</b>	Risks relating to market size, competition, pricing and reimbursement
<b>Commercial activities – products in research and development</b>	Risks relating to market size, competition, development time and costs, partner interest and pricing of products in development.
<b>Research and development</b>	Research and development of new pharmaceutical medicines is inherently a high-risk activity. The probability of discovering and developing an efficient and safe new medicine with strong IP protection is very low.
<b>Intellectual property</b>	If Zealand or its partners were to face infringement claims or challenges by third parties, an adverse outcome could subject Zealand or its partners to significant liabilities to such third parties. This could lead Zealand or its partners to curtail or cease the development of some or all of their candidate drugs, or cause Zealand's partners to seek legal or contractual remedies against Zealand, potentially involving a reduction in the royalties due to Zealand.
<b>Partner interest</b>	Entering into collaborations with partners can bring significant benefits as well as involving risks. In addition, full control of the products is often given to the collaborator.
<b>Financial</b>	Financial risks relate to cash and treasury management, liquidity forecasts and financing opportunities.



## Corporate governance recommendations

Zealand is committed generally to adhering to high standards of corporate governance.

In addition to the Recommendations, corporate governance at Zealand is further based on the Danish Companies Act, the Danish Financial Statements Act, IFRS, the Danish Securities Trading Act, Zealand's articles of association as well as good practice for companies of the same size and with the same international reach as Zealand.

The Board of Zealand has thoroughly considered the Recommendations, and it is the Board' conclusion that Zealand complies with the Recommendations with two exceptions, as explained below.

- Recommendations, section 3.4.8: The Remuneration and Compensation Committee will be using the same external advisers as the Executive Management. The Board considers that the external advisers will provide professional and unbiased advice in both capacities: as advisers to the Executive Management and to the Remuneration and Compensation Committee.
- Recommendations, section 4.1.4: The Committee recommends that if share-based remuneration is provided, such programs be established as rollover programs, meaning that the options are granted periodically and should have a maturity of at least three years from the date of allocation. Some of the warrants granted to the Executive Management can be exercised within a period of one to five years after being granted.

The following table indicates whether Zealand complies with the recommendations of the Committee on Corporate Governance. In line with the 'comply and explain' principle, Zealand has provided explanations if recommendations are not fully complied with.

= Zealand complies

= Zealand does not comply

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>		
<b>1.1. Dialogue between company, shareholders and other stakeholders</b>		
1.1.1. The Committee <b>recommends</b> that the Board ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the Board to be aware of the shareholders' views, interests and opinions on the company.		Zealand maintains an ongoing dialogue with its shareholders by regularly issuing news releases, quarterly reports and annual reports. Furthermore, the management team is in regular direct dialogue with the company's shareholders and other stakeholders via roadshows, investor meetings and attendance at investor conferences. Information and feedback from such meetings are collected and provided to the company's Board of Directors.



Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
		Zealand has an Investor Relations department to assist with dialogue with shareholders. Zealand has a section for investor information on its website, where all relevant information about the company and its activities is made readily available.
1.1.2. The Committee <b>recommends</b> that the Board adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the Board of Directors ensures that the interests of the shareholders are respected in accordance with company policies.	+	
1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports.	+	
<b>1.2. General Meeting</b>		
1.2.1. The Committee <b>recommends</b> that, when organizing the company's General Meeting, the Board plan the meeting to support active ownership.	+	The Board intends to comply with this recommendation.
1.2.2. The Committee <b>recommends</b> that proxies granted for the General Meeting allow shareholders to consider each individual item on the agenda.	+	
<b>1.3. Takeover bids</b>		
1.3.1. The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids from the time that the Board has reason to believe that a takeover bid will be made. According to such contingency procedures, the Board 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.	+	The Board intends to comply with this recommendation.
<b>2. Tasks and responsibilities of the Board</b>		
<b>2.1. Overall tasks and responsibilities</b>		



Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
2.1.1. The Committee <b>recommends</b> that at least once a year the Board take a position on the matters related to the Board of Directors' performance of its responsibilities.	+	The Board carries out a yearly review of its performance.
2.1.2. The Committee <b>recommends</b> that at least once a year the Board take a position on the overall strategy of the company with a view to ensuring value creation in the company.	+	
2.1.3. The Committee <b>recommends</b> that the Board ensure that the company has a capital and share structure ensuring 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 present this in the management commentary on the company's annual report and/or on the company's website.	+	At least once a year, the Board discusses and ensures that the necessary financial resources are in place in order for the company to achieve its strategic goals.
2.1.4. The Committee <b>recommends</b> that the Board annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the Board.	+	Procedures for communication between the Board and the Executive Management are described in the rules of procedure and reviewed annually.
2.1.5. The Committee <b>recommends</b> that at least once a year the Board discuss the composition of the executive board, as well as developments, risks and succession plans.	+	The composition of the Executive Management, as well as developments, risks and succession plans are discussed at least annually. A Nomination Committee is also assigned to look at the composition of the Executive Management and to propose possible changes.
2.1.6. The Committee <b>recommends</b> that once a year the Board discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.	+	



Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<b>2.2. Corporate social responsibility</b>		
2.2.1. The Committee <b>recommends</b> that the Board adopt policies on corporate social responsibility.	+	
<b>2.3. Chairman and vice-chairman of the Board</b>		
2.3.1. The Committee <b>recommends</b> appointing a vice-chairman of the Board who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as an effective sparring partner for the chairman.	+	
2.3.2. The Committee <b>recommends</b> ensuring that, if the Board, in exceptional cases, asks the chairman of the Board to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the Board maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.	+	The chairman does not perform special tasks for the company, nor participate in the day-to-day management of the company.
<b>3. Composition and organization of the Board</b>		
<b>3.1. Composition</b>		
3.1.1. The Committee <b>recommends</b> that the Board annually account for <ul style="list-style-type: none"> <li>• the skills it must have to best perform its tasks,</li> <li>• the composition of the Board, and</li> <li>• the special skills of each member.</li> </ul>	+	
3.1.2. The Committee <b>recommends</b> that the selection and nomination of candidates for the Board be carried out through a thoroughly transparent process approved by the overall Board of Directors. When assessing its composition and nominating new candidates, the Board must take into consideration the need for integration of	+	Zealand has established a Nomination Committee. A number of factors are taken into consideration before nominating candidates for the Board, including experience, diversity, specific skills and so on.

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
new talent and diversity in relation to age, international experience and gender.		
<p>3.1.3. The Committee <b>recommends</b> that the notice convening the General Meeting when election of members to the Board is on the agenda be accompanied by a description of the nominated candidates' qualifications, including information about the candidates, such as:</p> <ul style="list-style-type: none"> <li>• other executive functions, among these memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises,</li> <li>• demanding organizational tasks,</li> <li>• and information about whether candidates for the Board are considered independent.</li> </ul>	+	
3.1.4. The Committee <b>recommends</b> that the company's articles of association stipulate a retirement age for members of the Board.	+	Zealand's articles of association stipulate a retirement age of 70 for members of the Board.
3.1.5. The Committee <b>recommends</b> that members of the Board elected by the General Meeting be up for election every year at the annual General Meeting.	+	
<b>3.2. Independence of the Board</b>		
<p>3.2.1. The Committee <b>recommends</b> that at least half of the members of the Board elected by the General Meeting be independent persons, in order for the Board to be able to act independently of special interests.</p> <p>To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,</li> <li>• within the past five years, have received larger emoluments from the</li> </ul>	+	All of the present board members elected at the Annual General Meeting are regarded as independent.

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<p>company/group, a subsidiary undertaking or an associate in another capacity than as a member of the Board,</p> <ul style="list-style-type: none"> <li>• represent the interests of a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personal or indirectly as a partner or employee, shareholder, customer, supplier or member of the Executive Management in companies with a corresponding connection) with the company, a subsidiary undertaking or an associate,</li> <li>• be or within the past three years have been employed or a partner at the external auditor,</li> <li>• have been chief executive in a company holding cross-memberships with the company,</li> <li>• have been a member of the Board for more than 12 years, or</li> <li>• have been close relatives with persons who are not considered independent.</li> </ul>		
<p><b>3.3. Members of the Board and the number of other executive functions</b></p>		
<p>3.3.1. The Committee <b>recommends</b> that each member of the Board assess the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.</p>		<p>Zealand believes that each individual member of the Board can assess the time required to fulfill his/her functions satisfactorily for Zealand.</p>
<p>3.3.2. The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, include the following information about the members of the Board:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the relevant person,</li> <li>• whether the member is considered independent,</li> <li>• the date of appointment to the Board of the member,</li> <li>• expiry of the current election period,</li> </ul>		<p>This information is provided in the Annual Report.</p>

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<ul style="list-style-type: none"> <li>other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and</li> <li>demanding organizational tasks, and</li> <li>the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.</li> </ul>		
<b>3.4. Board committees</b>		
<p>3.4.1. The Committee <b>recommends</b> that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> <li>the terms of reference of the board committees,</li> <li>the most important activities of the committees during the year, and the number of meetings held by each committee, and</li> <li>the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	+	<p>Terms of reference for the Board, information about important activities, the number of meetings held and the names of the members of the Board Committees are included in the Statutory report on Corporate Governance and summarized in the Annual Report.</p> <p>The charters of the committees are available on the company's website.</p>
<p>3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.</p>	+	
<p>3.4.3. The Committee <b>recommends</b> that the Board set up a formal <u>audit committee</u> composed such that</p> <ul style="list-style-type: none"> <li>the chairman of the Board is not chairman of the audit committee, and</li> <li>between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose</li> </ul>	+	<p>All members of the audit committee are independent and have experience and expertise in financial reporting and accounting of listed companies.</p>

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<p>shares are admitted to trading on a regulated market.</p>		
<p>3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the Board about:</p> <ul style="list-style-type: none"> <li>• significant accounting policies,</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>		<p>The Audit Committee reviews and reports to the Board on all financial reports before they are final approved.</p>
<p>3.4.5. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually assess the need for an internal audit, and in such case, make recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>		<p>The Audit Committee considers the need for an internal audit function on an annual basis and does not see the need for one at present.</p>
<p>3.4.6. The Committee <b>recommends</b> that the Board establish a <u>nomination committee</u> chaired by the chairman of the Board with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required by the Board and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,</li> <li>• annually assess the structure, size, composition and results of the Board and the executive board, as well as recommend any changes to the Board,</li> <li>• annually assess the competences, knowledge and experience of the individual members of management,</li> </ul>		<p>Zealand has established a Nomination Committee.</p>



Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<p>and report to the Board in this respect,</p> <ul style="list-style-type: none"> <li>consider proposals from relevant persons, including shareholders and members of the Board and the executive board for candidates for the Board and the executive board, and</li> <li>propose an action plan to the Board on the future composition of the Board, including proposals for specific changes.</li> </ul>		
<p>3.4.7. The Committee <b>recommends</b> that the Board establish a <u>remuneration committee</u> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the Board and the executive board for approval by the Board prior to approval by the General Meeting,</li> <li>make proposals to the Board on remuneration for members of the Board and the executive board, as well as ensure 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 about the total amount of remuneration that members of the Board and the executive board receive from other companies in the group, and</li> <li>recommend a remuneration policy applicable for the company in general.</li> </ul>	+	<p>Zealand has established a Remuneration and Compensation Committee.</p>
<p>3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	-	<p>The Remuneration and Compensation Committee might be using external advisers from the same law firm as the Executive Management. Zealand believes that the external advisers will provide professional and unbiased advice in both capacities: as advisers to the Executive Management and to the Remuneration and Compensation Committee.</p>



Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<b>3.5. Evaluation of the performance of the Board and the executive board</b>		
3.5.1. The Committee <b>recommends</b> that the Board establish an evaluation procedure where contributions and results of the Board and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.	+	The Board undertakes an annual evaluation of the Board and each individual member.
3.5.2. The Committee <b>recommends</b> that in connection with preparation of the General Meeting, the Board consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.	+	The Board considers whether the number of members is appropriate as part of its annual evaluation.
3.5.3. The Committee <b>recommends</b> that at least once every year the Board evaluate the work and performance of the executive board in accordance with predefined clear criteria.	+	The Executive Management is evaluated in connection with the self-evaluation.
3.5.4. The Committee <b>recommends</b> that the executive board and the Board establish a procedure according to which their cooperation is evaluated annually through a formalized dialogue between the chairman of the Board and the chief executive officer and that the outcome of the evaluation be presented to the Board.	+	The cooperation between the Executive Management and the Board is evaluated annually through a formal dialogue.
<b>4. Remuneration of management</b>		
<b>4.1. Form and content of the remuneration policy</b>		
4.1.1. The Committee <b>recommends</b> that the Board prepare a clear and transparent remuneration policy for the Board and the executive board, including	+	The Board has adopted a remuneration policy, which is published on the company's website.

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
<ul style="list-style-type: none"> <li>a detailed description of the components of the remuneration for members of the Board and the executive board,</li> <li>the reasons for choosing the individual components of the remuneration, and</li> <li>a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> <p>The remuneration policy should be approved by the General Meeting and published on the company's website.</p>		
<p>4.1.2. The Committee <b>recommends</b> that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>limits be set on the variable components of the total remuneration package,</li> <li>a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,</li> <li>there be clarity about performance criteria and measurability for the award of variable components,</li> <li>there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data which proved to be misstated.</li> </ul>	+	The remuneration policy fulfills all these criteria.
<p>4.1.3. The Committee <b>recommends</b> that remuneration of members of the Board not include share options.</p>	+	
<p>4.1.4. The Committee <b>recommends that</b> if share-based remuneration is provided, such programs be established as roll-over programs, i.e. the options</p>	-	The Executive Management has received warrant-based remuneration that can be exercised within one to five years of receipt.

Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
are granted periodically and should have a maturity of at least three years from the date of allocation.		
4.1.5. The Committee <b>recommends that</b> agreements on termination payments should not amount to more than two years' annual remuneration.	+	
<b>4.2. Disclosure of the remuneration policy</b>		
4.2.1. The Committee <b>recommends</b> 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 <b>recommends</b> that the proposed remuneration for the Board for the current financial year be approved by the shareholders at the General Meeting.	+	
4.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the Board and the executive board by the company and other companies in the group, including information on the most important content of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.	+	The total remuneration granted to the Board and Executive Management is described in the Annual Report.
<b>5. Financial reporting, risk management and audits</b>		
<b>5.1. Identification of risks and transparency about other relevant information</b>		
5.1.1. The Committee <b>recommends</b> that the Board in the management commentary review and 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.	+	Zealand's annual report contain detailed information on the company's risks.
<b>5.2. Whistleblower scheme</b>		
5.2.1. The Committee <b>recommends</b> that the Board decide whether to	+	Zealand has established a whistleblower scheme.



Recommendation	Zealand complies (yes/no)	Explanation for complying partially/not complying with the recommendation
establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.		
<b>5.3. Contact with auditor</b>		
5.3.1. The Committee <b>recommends</b> that the Board ensure regular dialogue and exchange of information between the auditor and the Board, including that the Board and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.		
5.3.2. The Committee <b>recommends</b> that the audit agreement and auditors' fee be agreed between the Board and the auditor on the basis of a recommendation from the audit committee.		