



# Delivering on our commitment to patients.

**Zealand Pharma  
Statutory report on  
Corporate Governance 2019**

Statutory report on  
Corporate Governance for  
the financial year 2019, cf.  
section 107b of the Danish  
Financial Statements Act<sup>1</sup>.

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

# Contents.

## Zealand Pharma Statutory report on Corporate Governance 2019

Introduction	4
Management structure	5
Internal controls and risk management	9
Risk management	12
Corporate Governance Recommendations	14

# Introduction.

This corporate governance report for Zealand Pharma A/S (“Zealand”) has been prepared as a supplement to the Management review in the Annual Report 2019 covering the period January 1 – December 31, 2019.

As a company incorporated under the laws of Denmark, and with its shares admitted to trading and official listing on Nasdaq Copenhagen, as well as having American Depositary Shares representing Zealand shares trading on Nasdaq Global Select Market in New York, Zealand is subject to various applicable legislation, standards and other regulations for publicly traded companies. These include Danish and U.S. securities law and the recommendations on corporate governance issued by the Danish Committee on Corporate Governance (in the below “the Recommendations”).

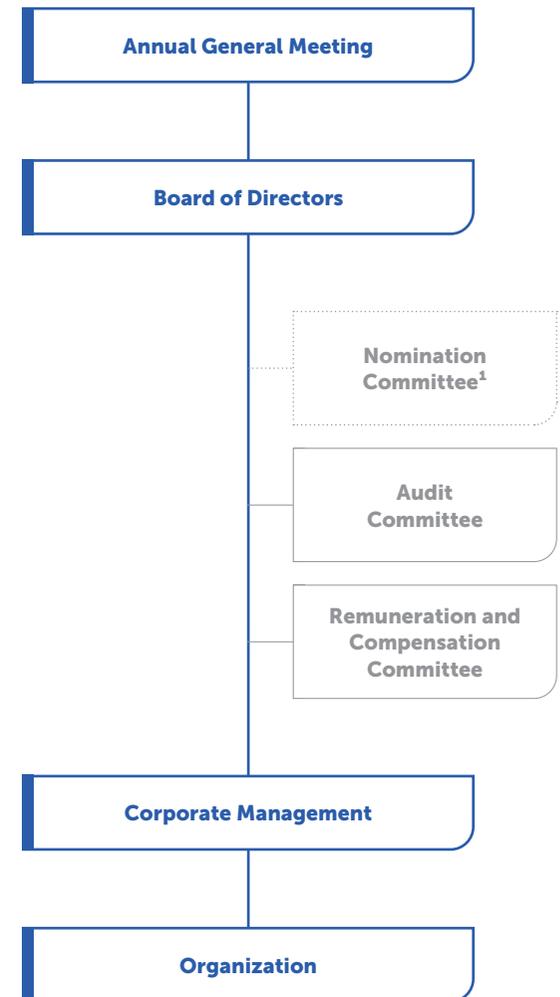
At Zealand, we regularly review our activities to ensure that we meet our obligations to shareholders, employees, regulatory authorities and other stakeholders while maximizing long-term value. Zealand also regularly reviews its rules, policies and practices within risk management and internal control to improve guidelines and policies for corporate governance, and to ensure that the standards that we set are up to date with accepted practice where this is appropriate.

Furthermore, the Board of Directors and the Corporate 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 our company.



Find out more about Zealand at [zealandpharma.com/corporate-governance/](https://zealandpharma.com/corporate-governance/)

## Corporate governance structure



<sup>1</sup> The full board acts as its own nomination committee.

# Management structure.

Zealand has a two-tier management structure composed of the Board of Directors ('the Board') and the Corporate Management.

The Board is responsible for the overall visions, strategies and objectives, the financial and managerial supervision of Zealand as well as for regular evaluation of the work of the Corporate Management. In addition, the Board provides general oversight of Zealand's activities and ensures that it is managed in a manner and in accordance with applicable law and Zealand's articles of association.

The Board approves the policies and procedures, and Corporate Management is responsible for the day-to-day management of Zealand in compliance with the guidelines and directions set by the Board. The allocation of responsibilities between the Board of Directors and the Corporate Management is stipulated in the Rules of Procedure.

## Board of Directors

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

Zealand's Board comprises seven members elected by the Annual General Meeting and two employee representatives. The Annual General Meeting ap-

points each member of the Board for a one-year term, whereas employee representatives are elected for a four-year term. The current employee representatives are up for election in 2020.

Board members elected among the shareholders:

- Martin Nicklasson, Chairman
- Kirsten A. Drejer, Vice Chair
- Jeffrey Berkowitz
- Bernadette Connaughton
- Alain Munoz
- Leonard Kruimer
- Michael J. Owen

Board members elected among the employees:

- Hanne Heidenheim Bak
- Jens Peter Stenvang

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

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

Six 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.

The Board of Directors met thirteen times in 2019, of which seven meetings were physical meetings.

The evaluation also resulted in a need of increased commercial competences from the U.S. markets.

**Board Committees**

The Board has established the following committees to support the Board in its duties.

- Audit committee
- Remuneration and Compensation committee
- Nomination committee

Charters of the committees are available at Zealand's website.

**Audit Committee**

The Audit Committee consists of Leonard Kruimer, Martin Nicklasson and Jeffrey Berkowitz, and is chaired by Leonard Kruimer.

The Audit Committee reviews and considers matters relating to accounting, audit and regulatory control with our auditors and executive management in accordance with the working terms of reference of the Audit Committee.

The Audit Committee oversees our accounting and financial reporting processes and the audits of our consolidated financial statements. Our Audit Committee has the following principal responsibilities:

- monitoring the financial reporting process and reviewing and challenging such process where it is necessary;
- monitoring compliance with applicable legislation, standards and other regulations for listed companies in respect of financial reporting and the publication of financial reporting;

**Evaluation of the Board of Directors**

In the first two months of 2020 the annual evaluation of the Board of Directors was carried out by an independent vendor, PwC. The process included electronic questionnaires and one on one interviews with members of the Board and members of the Corporate Management. There were also one on one meetings between the chairman and each board member.

In general there was a good level of satisfaction reported with the operation of the Board and its interaction with members of the Corporate Management.

One meeting between the chairman and each board member.

The evaluation, in general, revealed a good performance by the Board of Directors as well as good collaboration between the Board of Directors and the Corporate Management.

**Overview of meetings in 2019**

● Attended ○ Absent

	Board	Audit Committee	Remuneration and Compensation Committee	Nomination Committee
Martin Nicklasson	●●●●●●●●●●●●●●●●	●●●●●●●●●●	●●●	●●
Kirsten A. Drejer	●●●●●●●●●●●●●●●●	-	-	●●
Jeffrey Berkowitz <sup>1</sup>	●●●●●●●●○	●●●●●●		
Bernadette Connaughton <sup>1</sup>	●●●●●●●●			
Alain Munoz	●●●●●●●●●●●●●●●●	-	●●	●●
Leonard Kruimer <sup>1</sup>	●●●●●●●●	●●●●●●		
Michael J Owen	●●●●●●●●●●●●●●●●	-	●●●	●●
Hanne Heidenheim Bak	●●●●●●●●●●●●●●●●	-	-	-
Jens Peter Stenvang	●●●●●●●●●●●●●●●●	-	-	-
Rosemary Crane <sup>2</sup>	●●●●●●	●●●	-	●●
Catherine Moukheibir <sup>2</sup>	●●●●●●	●●●	-	●●

<sup>1</sup> Elected at the Annual General Meeting on April 4, 2019

<sup>2</sup> Stepped down at the Annual General Meeting held on April 4, 2019

- monitoring the effectiveness of the internal controls and risk management systems related to financial reporting and evaluating the need for an internal audit;
- establishing procedures for the receipt, retention and treatment of complaints received regarding accounting, internal controls, auditing and financial reporting matters (whistleblower function);
- nominating the statutory external auditor to be elected by the annual general meeting and preparing the recommendation to the annual general meeting regarding the election of our external auditor, as well as, if relevant, proposing to the annual general meeting that an external auditor is discharged;
- monitoring the strategy, plan, scope and approach of the external auditor's annual audit;
- monitoring and approving the terms and compensation of the external auditor;
- monitoring the external auditor's reports to the executive management and the board of directors, including management letters and long form reports, discussing any reports with the executive management and the external auditor and be mainly responsible for resolving any disagreements between the external auditor and the executive management;
- considering (at least on an annual basis) the performance and independence of the external auditor,

and obtaining and reviewing of a report from the external auditor substantiating that the external auditor is independent;

- reviewing policy in relation to the provision of non-audit services by the external auditor under which the Audit Committee approves non-audit services delivered by the external auditor;
- engaging independent counsel and other advisors as the Audit Committee determines necessary to carry out its duties;
- obtaining available appropriate funding as the Audit Committee determines necessary for the fulfillment of its tasks and duties; and
- evaluating on an annual basis: (i) the performance of the Audit Committee, including independence and financial expertise; and (ii) the adequacy of the Audit Committee's charter and recommendation of any proposed changes to the board of directors.

In 2019, specific topics discussed included accounting treatment of agreement with Alexion Pharmaceuticals and acquisition of Encycle Therapeutics, auditor's reports, accounting policies, internal controls, including SOX (Sarbanes-Oxley Act) compliance, risk management, insurance policy, year-end issues and external financing.

The Audit Committee met nine times in 2019, of which four meetings were physical meetings.

### Remuneration and Compensation Committee

The Remuneration and Compensation Committee consists of Martin Nicklasson, Alain Munoz and Michael J. Owen.

The Remuneration and Compensation Committee proposes the remuneration policy and general guidelines for incentive pay for the Board of Directors and the CEO of Zealand 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 general guidelines for incentive remuneration are subject to the approval of our shareholders at the annual general meeting. Our Remuneration and Compensation Committee has the following principal responsibilities:

- preparing and presenting proposals to the Board of Directors on the framework for remuneration packages for Executive Management, including, but not limited to salary, salary increases, pension rights and any compensation or terminations payments, ensuring that the contractual terms are fair to the individual and to us, that failure is not rewarded and that the duty to mitigate loss is fully recognized;

- preparing and presenting proposals to the Board of Directors on remuneration matters of material importance to us, including incentive programs and payments for the Executive Management. The proposals for the remuneration of Executive Management, including any incentive program shall be in accordance with and not exceed comparable market practice levels at any given time;
- preparing and presenting proposals to the Board of Directors on the targets (bonus levels and performance targets) for company-operated performance-related incentive programs for Executive Management, as well as monitoring and evaluating the fulfillment of such targets;
- overseeing the implementation of any pension, retirement, death or disability, or life assurance scheme and any incentive schemes for Executive Management; and
- reviewing and considering the proposals from our Nomination Committee on remuneration for members of the Board of Directors and Executive Management.

In 2019, specific topics discussed included warrant programs, long-term incentive programs in general, company goals, employee salary levels, employee pensions, and CEO and Board compensation.

The Remuneration and Compensation Committee met physically three times in 2019.

### **Nomination committee**

The Nomination Committee consists of all of the seven shareholder-elected board members.

The Nomination Committee make recommendations for decisions to the Board of Directors regarding board and CEO positions and identifies and recommend candidates for the Board of Directors.

Specific topics discussed in 2019 included the replacement of CEO, as Britt Meelby Jensen resigned in November 2018, and candidates for the Board of Directors.

The Nomination Committee met physically two times in 2019.

### **Corporate Management**

Corporate Management is composed by the Executive Management and other members of the Corporate Management and consists of:

### **Executive Management**

- Emmanuel Dulac, President and Chief Executive Officer (from April 22, 2019)
- Matthew Dallas, Senior Vice President and Chief Financial Officer (from October 7, 2019)
- Adam Steensberg, Executive Vice President, Research and Development, and Chief Medical Officer

### **Other members of the Corporate Management**

- Ivan Møller, Senior Vice President, Technical Development and Operations
- Marino Garcia, Senior Vice President, Business Development and International Commercial

# 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 for now performed mainly within one legal entity, and all main operations are based at one site in Søborg, 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. During 2019 Zealand has worked to design and implement an Internal Control Framework to respond to the requirements of the Sarbanes-Oxley Act as a result of the U.S. listing.

As of December 31, 2019 key risks and processes have been identified and described and internal controls are in the process of being designed and implemented in the organization.

During 2019 more capable resources were added in Accounting and Finance functions to build proper competencies and skills. We continue engaging external subject matter experts in key areas to ensure

our competencies with respect to IFRS and SEC reporting, tax matters, etc.

An annual evaluation – with particular emphasis on risk management and internal controls over financial reporting – is carried out to identify corrective actions needed to ensure that risks are addressed and 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 being 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 Corporate 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 is working on design and effectiveness of its management reporting and internal control systems in order to enable it to monitor performance, strategy, operations, business environment, organization, procedures, funding, risk and internal controls. Although implementation is not complete Zealand is of the opinion that the reporting and internal controls are adequate to avoid material misstatements in the financial reporting.

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

- Zealand's Ambition 2020+ and Strategic review 2019
- 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 controls to ensure the completeness and accuracy of accounting records.

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

### **Control environment/Accounting**

Incoming invoices are approved electronically, and an approval hierarchy ensures that invoices are approved by the appropriate persons and according to Schedule of Authorization of Zealand. Payment proposals are approved through online banking and always by two staff members jointly. No changes to vendor's banking details can be performed without approval.

### **Risk assessment**

As part of the risk assessment process, a review and prioritization of material accounting items has 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 adequately reducing 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.

Management reviews the accounting policies used and assesses need for any new accounting policies.

Any items where estimates and/or assessments influence the accounts are discussed with the Audit Committee 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, etc. A Cyber Awareness Training program for all employees is ongoing. IT has established a network monitoring system in order to surveil suspicious and abnormal behavior, e.g. virus, external and internal threats.

# 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 takes 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, clinical trial risks, regulatory 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 yearly 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.

## Zealand risk and mitigation

	Risk	Mitigation
<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.	From early in the research phase and throughout development, commercial potential and risks are assessed to ensure that final products have the potential to be commercially viable. Any major changes in the commercial potential of a drug candidate can lead to reduced value prospects and, ultimately, discontinued 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.	Throughout the research and development process, Zealand regularly assesses these risks by means of a quarterly risk assessment of all the Company’s research and development projects, conducted by Management together with the department heads and project managers. This assessment, which is presented to the Board of Directors, describes each project and measures its progress based on milestones. It analyzes the individual risks of each project and prioritizes the project portfolio.

## Risks at Zealand and mitigation – continued

Risk		Mitigation
<b>Clinical trials</b>	Our product candidates will need to undergo time-consuming and expensive trials to document efficacy and safety, the outcome of which is unpredictable, and for which there is a high risk of failure. If clinical trials of our product candidates fail to satisfactorily demonstrate safety and efficacy to the FDA, the EMA and other comparable regulatory authorities, Zealand may incur additional costs or experience delays in completing, or ultimately not be able to complete, the development of these product candidates.	Zealand's clinical project teams work closely with external expert clinicians and product development experts within the industry to design, set up and conduct the clinical programs. Zealand's employees have been selected due to their extensive experience within their field of expertise, receive training and are continuously developed to fulfill requirements.
<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.	Zealand's patent department works closely with external patent counsels and partners' patent counsels to minimize the risk of patent infringement claims as well as to prepare any patent defence should this be necessary.  Zealand's employees receive training and updates on policies regarding the correct and lawful management of external intellectual property.
<b>Regulatory</b>	The regulatory approval processes of the FDA, the EMA and other comparable regulatory authorities are lengthy, time consuming and inherently unpredictable, and if Zealand or its collaboration partners are ultimately unable to obtain regulatory approval for their internal or outlicensed product candidates, Zealand's business could be substantially harmed.	Zealand's regulatory department works closely with external consultants and regulatory agents to develop regulatory strategies and frequently interacts with regulatory agencies.
<b>Future partnerships</b>	Entering into collaborations with partners can bring significant benefits as well as involve risks. In addition, full control of the product is often given to the partner.	Zealand has taken a decision to increase its focus on proprietary programs in order to decrease its dependence on partners in the development process and capture more of the value of its projects.  However, partnerships may still be relevant in the future and, in order to maximize the value of such partnerships, Zealand strives to foster a close and open dialogue with its partners, thereby building strong partnerships that work effectively.
<b>Financial</b>	Financial risks relate to cash and treasury management, liquidity forecasts and financing opportunities.	Financial risks are managed in accordance with the Finance Policy, regularly assessed by the Company's Management and reported to the Audit Committee and the Board of Directors. During 2019 Zealand has worked to design and implement an Internal Control Framework to respond to the requirements of the Sarbanes-Oxley Act as a result of the US listing. See also p. 84, Note 26 – Financial risks in the Annual Report 2019.

# Corporate Governance Recommendations.

Zealand is subject to the Recommendations on Corporate Governance from November 23, 2017 as amended, which are available on the Committee on Corporate Governance's website <https://corporategovernance.dk/english>.

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 with the Recommendations on Corporate Governance in all material respects, with one exception:

- 3.4 Board committees (Recommendation, 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.

**This corporate governance statement has been approved by the Board of Directors on March 12, 2020.**



Find out more about Zealand at [zealandpharma.com/corporate-governance](https://zealandpharma.com/corporate-governance)

Recommendation	The company complies	The company complies partially	The company does not comply	The 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 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.	✓			
1.1.2. The Committee <b>recommends</b> 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.	✓			
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 in organising the company's general meeting, the board of directors plans the meeting to support active ownership.	✓			
1.2.2. The Committee <b>recommends</b> that proxies or votes by post 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 of directors has reason to believe that a takeover bid will be made. The 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.	✓			
<b>2. Tasks and responsibilities of the board of directors</b>				
<b>2.1. Overall tasks and responsibilities</b>				
2.1.1. The Committee <b>recommends</b> 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 <b>recommends</b> 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 <b>recommends</b> 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.	✓			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
2.1.4. The Committee <b>recommends</b> 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 <b>recommends</b> that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.	✓			
<b>2.2. Corporate social responsibility</b>				
2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.	✓			
<b>2.3. Chairman and vice-chairman of the board of directors</b>				
2.3.1. The Committee <b>recommends</b> 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 <b>recommends</b> 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 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.	✓			
<b>3. Composition and organisation of the board of directors</b>				
<b>3.1. Composition</b>				
3.1.1. The Committee <b>recommends</b> that the board of directors annually evaluate and in the management commentary account for <ul style="list-style-type: none"> <li>• the competencies that it must have to best perform its tasks,</li> <li>• the composition of the board of directors, and</li> <li>• the special competencies of each member.</li> </ul>	✓			
3.1.2. The Committee <b>recommends</b> 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.	✓			
3.1.3. The Committee <b>recommends</b> 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.	✓			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<p><b>3.1.4.</b> The Committee <b>recommends</b> 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'</p> <ul style="list-style-type: none"> <li>• other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and</li> <li>• demanding organisational tasks.</li> </ul> <p>Furthermore, it should be indicated if the candidates to the board of directors are considered independent.</p>	✓			
<p><b>3.1.5.</b> The Committee <b>recommends</b> 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.</p>	✓			
<p><b>3.1.6.</b> The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.</p>	✓			
<b>3.2. Independence of the board of directors</b>				
<p><b>3.2.1.</b> The Committee <b>recommends</b> 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.</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 or an associated company,</li> <li>• 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,</li> <li>• represent or be associated with a controlling shareholder,</li> <li>• 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.</li> <li>• 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,</li> <li>• be part of the executive management in a company with cross-management representation in the company,</li> <li>• have been a member of the board of directors for more than 12 years, or</li> <li>• be a close relative with persons who are not considered independent.</li> </ul> <p>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.</p>	✓			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<b>3.3. Members of the board of directors and the number of other management functions</b>				
<b>3.3.1.</b> The Committee <b>recommends</b> 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.	✓			
<b>3.3.2.</b> The Committee <b>recommends</b> 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: <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the person in question,</li> <li>• the person's competencies and qualifications that are relevant to the company</li> <li>• whether the member is considered independent,</li> <li>• the member's date of appointment to the board of directors,</li> <li>• expiry of the current election term,</li> <li>• the member's participation in the meetings on the board of directors and committee meetings,</li> <li>• 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</li> <li>• 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.</li> </ul>	✓			
<b>3.3.3.</b> The Committee <b>recommends</b> 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.	✓			
<b>3.4. Board committees</b>				
<b>3.4.1.</b> The Committee <b>recommends</b> that the company publish the following on the company's website: <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 regarding which members are independent members and which members have special competencies.</li> </ul>	✓			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<p><b>3.4.2.</b> The Committee <b>recommends</b> that a majority of the members of a board committee be independent.</p>	✓			
<p><b>3.4.3.</b> The Committee <b>recommends</b> that the members of the board of directors set up among its members an audit committee and that a chairman is appointed who is not the chairman of the board of directors.</p>	✓			
<p><b>3.4.4.</b> 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 of directors 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><b>3.4.5.</b> The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• ensure that if an internal audit has been established, a description of its functions and approved by the board of directors,</li> <li>• ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	✓			
<p><b>3.4.6.</b> The Committee <b>recommends</b> that the board of directors establish a <i>nomination committee</i>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• 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,</li> <li>• annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,</li> <li>• recommending candidates for the board of directors and the executive board, and</li> <li>• proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>	✓			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<p><b>3.4.7.</b> The Committee <b>recommends</b> that the board of directors establish a remuneration committee, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• 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,</li> <li>• recommending a remuneration policy applicable for the company in general and</li> <li>• assisting with the preparation of the annual remuneration report.</li> </ul>	✓			
<p><b>3.4.8.</b> 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 the same external advisers 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>
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>				
<p><b>3.5.1.</b> The Committee <b>recommends</b> 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,</p> <ul style="list-style-type: none"> <li>• cooperation with the executive board,</li> <li>• the chairman’s leadership of the board of directors,</li> <li>• the composition of the board of directors (including competencies, diversity and the number of members),</li> <li>• the work in the committees and the committee structure, and</li> <li>• the organisation and quality of the material that is submitted to the board of directors.</li> </ul>	✓			
<p>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.</p>				

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<p><b>3.5.2.</b> The Committee <b>recommends</b> 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.</p>	✓			
<p><b>3.5.3.</b> The Committee <b>recommends</b> 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.</p>	✓			
<b>4. Remuneration of management</b>				
<b>4.1. Form and content of the remuneration policy</b>				
<p><b>4.1.1.</b> The Committee <b>recommends</b> that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes:</p>	✓			
<ul style="list-style-type: none"> <li>• a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> <li>• the reasons for choosing the individual components of the remuneration,</li> <li>• a description of the criteria that form the basis for the balance between the individual components of the remuneration, and</li> <li>• an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.</li> </ul>				
<p>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.</p>				
<p><b>4.1.2.</b> 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 composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,</li> <li>• clarity be established about performance criteria and measurability for the award of variable components,</li> <li>• 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, and</li> <li>• 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.</li> </ul>				

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options or warrants.	✓			
4.1.4. The Committee <b>recommends</b> 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.	✓			Warrant programs established for employees in Zealand Pharma Inc. US have programs with vesting period of one year for a portion of the granted values to comply with US benchmark .
4.1.5. The Committee <b>recommends</b> 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.	✓			
<b>4.2. Disclosure of remuneration</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 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 <b>recommends</b> 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.				

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<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 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.	✓			
<b>5.2. Whistleblower scheme</b>				
5.2.1. The Committee <b>recommends</b> that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.	✓			
<b>5.3. Contact to auditor</b>				
5.3.1. The Committee <b>recommends</b> 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.	✓			
5.3.2. The Committee <b>recommends</b> 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.	✓			



**Zealand Pharma A/S**  
Sydmarken 11  
DK-2860 Søborg  
Denmark

Tel: +45 88 77 36 00  
Fax: +45 88 77 38 98  
CVR no.: 20 04 50 78

[www.zealandpharma.com](http://www.zealandpharma.com)



Design and production: Noted  
Photos: Jesper Westley