



# Annual corporate governance statement 2017/18

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Chr. Hansen Holding A/S  
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Denmark

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**CHR HANSEN**

*Improving food & health*

# CORPORATE GOVERNANCE

# **ANNUAL CORPORATE GOVERNANCE STATEMENT 2017/18**

This annual corporate governance statement for Chr. Hansen Holding A/S (hereinafter "Chr. Hansen" or "the Company") has been prepared pursuant to section 107b of the Danish Financial Statements Act. The statement forms part of the Management's Review in the 2017/18 Annual Report and concerns the accounting period from September 1, 2017 to August 31, 2018.

The statement includes:

- A description of the management structure
- A review of the Company's position on the Danish Recommendations on Corporate Governance as adopted by Nasdaq Copenhagen (the "Recommendations")
- The main elements of the internal control and risk management systems in relation to financial reporting

## **MANAGEMENT STRUCTURE**

### **Shareholders**

Shareholders have ultimate authority over the Company and can exercise their rights by passing resolutions at general meetings. Resolutions can generally be passed by a simple majority. However, resolutions to amend the Articles of Association require two-thirds of votes cast and capital represented, unless the Danish Companies Act imposes other adoption requirements.

### **Board of Directors**

The Board of Directors is responsible for the overall management of the Company. In accordance with current practice in Denmark, responsibilities are distributed between the Board of Directors and the Executive Board as two independent bodies. The Executive Board is in charge of day-to-day management, while the Board of Directors supervises the work of the Executive Board and is responsible for general strategic management.

The Board of Directors has eleven members, seven of whom are elected by shareholders and four by employees. Currently, all seven board members elected by shareholders, including the Chairman, are independent<sup>1</sup>. All shareholder-elected members of the Board of Directors serve for terms of one year. Employee-elected members serve for terms of four years in accordance with current legislation, the current term ending in November 2021.

<sup>1</sup> As defined in section 3.2.1 in the Danish Recommendations on Corporate Governance of May 6, 2013 as adopted by Nasdaq Copenhagen in its Rules for Issuers of Shares with effect from June 1, 2013 and as amended in November 2014.

The Board of Directors meets six to eight times a year. In 2017/18, the Board of Directors held seven board meetings. All members attended at least six of the seven board meetings, whereas one board member was excused from one board meeting within the members' term in 2017/18.

In November 2017, the shareholders elected the following members to the Board of Directors:

- Ole Andersen (Chairman of the Board of Directors, chairman of the Nomination Committee and of the Remuneration Committee, and member of the Audit Committee)
- Dominique Reiniche (Vice Chairman of the Board of Directors and member of the Nomination Committee, the Remuneration Committee and the Scientific Committee)
- Jesper Brandgaard (member of the Board of Directors and member of the Audit Committee)
- Luis Cantarell (member of the Board of Directors and chairman of the Scientific Committee)
- Heidi Kleinbach-Sauter (member of the Board of Directors and member of the Scientific Committee)
- Kristian Villumsen (member of the Board of Directors and member of the Audit Committee and the Nomination Committee)
- Mark Wilson (member of the Board of Directors, chairman of the Audit Committee, and member of the Remuneration Committee)

At the constituent board meeting following the Annual General Meeting held in November 2017, the Board of Directors reappointed Dominique Reiniche as Vice Chairman and appointed the board committees.

In 2017, the employees elected the following members to the Board of Directors (elected for a four-year term):

- Lisbeth Grubov
- Charlotte Hemmingsen
- Kim Ib Sørensen
- Per Poulsen

The shareholder-elected members of Chr. Hansen's Board of Directors have undertaken to purchase, no later than 12 months after their appointment, shares corresponding to at least one year's fee for an ordinary board member, and to maintain ownership of these shares during the entire period of their board membership. See note 2.3 to the Consolidated Financial Statements for information on board members' current shareholdings.

# CORPORATE GOVERNANCE

## Annual Board of Directors review

The Chairman of the Board of Directors is responsible for conducting an annual review of the Board's performance, addressing the effectiveness of the Board, the processes supporting its work, individual members' contributions and the Chairman's performance.

In 2017/18, the evaluation was conducted by the individual directors and executives anonymously completing a comprehensive online questionnaire, which was then summarized by an external consultant.

Similar evaluations of their effectiveness have been undertaken by the Audit Committee, the Nomination Committee, the Remuneration Committee and the Scientific Committee.

The results of the assessment process were presented to the Board of Directors in September 2018 by the Chairman. The report describes a number of areas in which the Board is both effective and functions very well and gives an overall impression of a high-performing Board of Directors. Almost all areas for improvement that were identified in last year's assessment have been complied with. This year, too, the assessment identified some minor areas in which improvements will be considered.

The Chairman has held individual meetings with the other directors to review their performance.

## Board committees

The Board of Directors may establish board committees for the purpose of preparing decisions and recommendations for evaluation and approval by the Board of Directors. In accordance with the Recommendations, the Board of Directors has established four committees:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Scientific Committee

Reporting to the Board of Directors, the committees have individual charters and agreed annual schedules defining their main tasks and responsibilities. At least half of the members of the respective committees must meet the independence requirements set out in the Recommendations from time to time.

## Audit Committee

The Board of Directors has established an Audit Committee, which currently consists of four members of the Board of Directors. The committee's role is to assist the Board of Directors in fulfilling its responsibilities in the financial reporting process, the system of internal controls, the audit process and the Company's process for monitoring compliance with laws, regulations, internal policies and positions, including considering the independence of the external auditor and reviewing the interim financial reports.

The Board of Directors appoints committee members and the committee chair, which cannot be the Chairman of the Board of Directors. At least one of the members must have expertise and experience in accounting/auditing, and the members of the committee must as a whole have competencies relevant for the industry in which the Company operates. The committee meets at least four times a year in accordance with an agreed annual schedule, ensuring compliance with recommendations and sufficient monitoring. The annual schedule reflects key events in the annual financial reporting cycle and the aforementioned responsibilities.

In 2017/18, the committee held four meetings. One member was excused from one meeting, and one member was excused from two meetings, within the members' term in 2017/18.

In November 2017, the Board of Directors appointed the following to serve on the Audit Committee:

- Mark Wilson (Chairman; independent)
- Ole Andersen (member; independent)
- Jesper Brandgaard (member; independent)
- Kristian Villumsen (member; independent)

## Remuneration Committee

The Board of Directors has established a Remuneration Committee, which consists of at least three members of the Board of Directors.

The committee's role is to assist the Board of Directors in fulfilling its responsibilities in regard to establishing, implementing and executing its remuneration position for the members of the Board of Directors and the Executive Board. Furthermore, the committee assists the Board of Directors in preparing a general remuneration policy for the Company. The Board of Directors appoints committee members. The Chairman of the Board of Directors serves as chairman of the committee. The committee meets at least twice a year in accordance with an agreed annual schedule. In 2017/18, the committee held four meetings. All three members attended all meetings within the members' term in 2017/18.

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In November 2017, the Board of Directors appointed the following to serve on the Remuneration Committee:

- Ole Andersen (Chairman; independent)
- Dominique Reiniche (member; independent)
- Mark Wilson (member; independent)

Chr. Hansen's current Remuneration Policy and guidelines for incentive-based remuneration can be found at: [www.chr-hansen.com/investors/governance/remuneration](http://www.chr-hansen.com/investors/governance/remuneration).

## Nomination Committee

The Board of Directors has established a Nomination Committee consisting of at least three members of the Board of Directors.

The committee's role is to assist the Board of Directors in fulfilling its responsibilities with respect to the nomination and appointment of members of the Board of Directors and the Executive Board, ensuring that the Board of Directors and the Executive Board are at all times of the appropriate size and composed of individuals with the professional qualifications and experience required, and conducting regular evaluations of the performance of the Board of Directors and the Executive Board

The Board of Directors appoints committee members. The Chairman of the Board of Directors serves as chairman of the committee. The Committee meets at least twice a year in accordance with an agreed annual schedule. In 2017/18, the committee held three meetings. One of the three members was excused from one meeting within the member's term in 2017/18.

In November 2017, the Board of Directors appointed the following to serve on the Nomination Committee:

- Ole Andersen (Chairman; independent)
- Dominique Reiniche (member; independent)
- Kristian Villumsen (member; independent)

## Scientific Committee

The Board of Directors has established a Scientific Committee, which consists of one to three members.

The committee's role is to assist the Board of Directors in fulfilling its responsibilities with respect to the Company's research & development (R&D) activities and ensuring that the Board of Directors has an informed, independent view of the focus and direction of the R&D function's work and capabilities.

The Board of Directors appoints committee members and, if the committee consists of more than one member, the chairman of the committee.

The committee ordinarily meets at least four times a year in accordance with an agreed annual schedule. In 2017/18, however, the committee only held three meetings. The September 2017 meeting was cancelled due to the new Chief Science Officer ("CSO") not joining the Company until 1 November 2017. All three members attended all meetings within the members' term in 2017/18.

In November 2017, the Board of Directors appointed the following to serve on the Scientific Committee:

- Luis Cantarell (Chairman; independent)
- Heidi Kleinbach-Sauter (member; independent)
- Dominique Reiniche (member; independent)

## Executive Board

The Board of Directors appoints an Executive Board responsible for the day-to-day management and compliance with the guidelines and recommendations issued by the Board of Directors. The Executive Board is also to present and recommend proposals on the Company's overall strategy and objectives to the Board of Directors. The Executive Board currently has four members and is chaired by the Chief Executive Officer ("CEO"). In November 2017, Chief Science Officer ("CSO") Thomas Schafer joined the Executive Board. In February 2018, the Executive Vice President for Food Cultures & Enzymes, Christoffer Lorenzen, joined the Executive Board and in June 2018, President and CEO Cees de Jong stepped down from the Executive Board and was replaced by President and CEO Mauricio Graber. The Executive Board meets frequently with the Corporate Leadership Team, which currently has eight additional members.

As of August 31, 2018, the members of the Executive Board were:

- Mauricio Graber (President & CEO)
- Søren Westh Lonning (Chief Financial Officer (CFO))
- Christoffer Lorenzen (Executive Vice President, Food Cultures & Enzymes)
- Thomas Schäfer (Chief Science Officer (CSO))

# CORPORATE GOVERNANCE **RECOMMENDATIONS FOR CORPORATE GOVERNANCE IN DENMARK**

As a company listed on Nasdaq Copenhagen, Chr. Hansen is subject to the Danish Recommendations on Corporate Governance of May 6, 2013 as adopted by Nasdaq Copenhagen in its Rules for Issuers of Shares with effect from June 1, 2013 and as amended in November 2014<sup>2</sup>. The full wording of the recommendations is available from the website of the Danish Committee on Corporate Governance, [www.corporategovernance.dk](http://www.corporategovernance.dk).

Nasdaq Copenhagen requires Danish companies to report on the Recommendations on a “comply-or-explain” basis. The following explains how Chr. Hansen complied with all but the following recommendation in the financial year 2017/18:

- Section 3.1.4 – Retirement age for board members: the articles of association do not stipulate a retirement age for members of the board of directors.

Chr. Hansen’s explanation to the deviation from the applicable Danish Corporate Governance Recommendations can be reviewed below under section 3.1.4

## **1. COMMUNICATION AND INTERACTION BY THE COMPANY WITH ITS INVESTORS AND OTHER STAKEHOLDERS**

### **1.1. Dialogue between company, shareholders and other stakeholders**

#### **1.1.1. Recommendation to ensure ongoing dialogue with shareholders.**

Chr. Hansen strives to provide a high and consistent level of information to the investor community and seeks to ensure that adequate information flows back from the investor community to the Executive Board and the Board of Directors.

Chr. Hansen publishes annual and interim financial reports. These and other company announcements are published via the West Digital Communications (formerly GlobeNewswire) system and can subsequently be accessed on [www.chr-hansen.com](http://www.chr-hansen.com).

The primary dialogue with shareholders takes place during the Annual General Meeting and at investor meetings and presentations. Investors may also maintain an ongoing

<sup>2</sup> The Danish Recommendations on Corporate Governance of November 23, 2017 as adopted by Nasdaq Copenhagen in its Rules for Issuers of Shares with effect from January 3, 2018, are applicable for the Company for the 2018/19 Annual Report comprising the accounting period from September 1, 2018 to August 31, 2019.

dialogue by contacting the Investor Relations department to obtain additional non-price-sensitive information. Webcasts are held following the publication of each interim report to give participants the opportunity to direct questions to Management. Webcasts including transcripts are subsequently made available on [www.chr-hansen.com](http://www.chr-hansen.com).

Chr. Hansen held more than 250 meetings with institutional investors in the financial year 2017/18.

#### **1.1.2. Recommendation to adopt policies on the relationship with stakeholders, including shareholders and other investors.**

Chr. Hansen is committed to maintaining a transparent and constructive dialogue with shareholders and other stakeholders. The dialogue and relationship are managed in accordance with the Company’s Corporate Governance, Communications and Business Integrity Policies, as well as positions on Investor Relations and Sustainability.

In 2017/18, the policies and positions were reviewed and approved by the Board of Directors at a board meeting in September 2017 and are available on [www.chr-hansen.com](http://www.chr-hansen.com).

#### **1.1.3. Recommendation to publish quarterly reports.**

The Company publishes interim reports. Danish law no longer requires the publication of interim reports. However, to serve the best interests of shareholders and to maintain a high and consistent level of information to the investor community, the Board of Directors has resolved that the Company will continue to publish interim reports.

In 2017/18, the reports were prepared in English only.

## **1.2. General meeting**

### **1.2.1. Recommendation to plan the annual general meeting to support active ownership.**

Chr. Hansen is committed to maintaining constructive dialogue and a high level of transparency when communicating with the Company’s shareholders and other stakeholders.

The Board of Directors and the Executive Board encourage investors to participate actively in annual general meetings. The date of each year’s annual general meeting is published in the financial calendar and, as part of the ongoing dialogue, investors are actively encouraged to attend.

# CORPORATE GOVERNANCE

The Annual General Meeting for the 2016/17 financial year was held at Chr. Hansen's headquarters in Hørsholm, Denmark, on November 28, 2017, with 65% of the share capital represented, a slight decrease from 68% in 2016.

## **1.2.2. Recommendation that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.**

Recommendation that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.

Pursuant to the Articles of Association, shareholders may cast their votes in writing to the Board of Directors prior to the Annual General Meeting (postal votes). Furthermore, voting rights may be exercised by means of written and dated proxies in accordance with the relevant laws in force at any given time. Both postal and proxy votes must consider each individual item on the agenda. The form to be used for postal and proxy voting is available on [www.chr-hansen.com](http://www.chr-hansen.com).

The proxy/postal voting form used for the Annual General Meeting for financial year 2016/17 allowed shareholders to consider each individual item on the agenda.

## **1.3. Takeover bids**

### **1.3.1. Recommendation to set up contingency procedures in the event of takeover bids in accordance with which the board of directors should not, without the acceptance of the general meeting, attempt to counter the takeover bid.**

Chr. Hansen confirms that, should it become aware that a takeover bid will or is likely to be submitted, it will not make any decisions or initiate defensive measures without prior shareholder approval granted at a general meeting. Chr. Hansen has prepared a takeover procedure to ensure that shareholders will be given an opportunity to decide whether they wish to dispose of their shares in the Company under the terms offered.

The Board of Directors is not aware of and did not receive any possible takeover bids during 2017/18.

## **2. TASKS AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

### **2.1. Overall tasks and responsibilities**

#### **2.1.1. Recommendation that the board of directors takes a position on matters related to the board's performance of its responsibilities at least once a year.**

Once a year, the Board of Directors identifies its most important tasks in relation to financial and managerial supervision of the Company, including the way in which it intends to supervise the work of the Executive Board. The Board of Directors has adopted Rules of Procedure for the Board of Directors that are subject to annual evaluation, update and approval by the Board of Directors.

In 2017/18, the Board of Directors identified its most important tasks for the year and reviewed the Rules of Procedure at a board meeting in September 2017.

#### **2.1.2. Recommendation that the board of directors takes a position on the company's overall strategy at least once a year.**

At least once a year, the Board of Directors sets out the strategic objectives of the Company based on proposals submitted by the Executive Board, and approves the Company's general business policies and guidelines to ensure optimum value creation.

The Board of Directors reviewed the "Nature's No. 1TM" strategy in the spring of 2018 and launched an update of the strategy "Nature's No.1TM - Sustainably" just before the Capital Markets Day event in April 2018. The general business policies and guidelines were reviewed and approved at a board meeting in September 2017.

#### **2.1.3. Recommendation that the company has a capital and share structure ensuring that its strategy and long-term value creation are in the best interests of shareholders.**

The Board of Directors regularly assesses whether the share capital and the share structure are in the best interests of the Company and shareholders. The findings are presented in each year's annual report. At present, the Company has a single class of shares, and all shares rank *pari passu*. Each DKK 10 share carries one vote.

To ensure a capital structure in the shareholders' best interests and to reflect the Company's cash flow generation, excess cash has been distributed to shareholders in the form of share buy-backs and extraordinary dividends.

At the Annual General Meeting in November 2017, the shareholders approved the pay-out of an ordinary year-end dividend of EUR 112 million (EUR 0.85 per share). In addition, an extraordinary dividend of EUR 105 million (EUR 0.80 per share) was paid in July 2018.

# CORPORATE GOVERNANCE

## **2.1.4. Recommendation to review and approve guidelines for the executive board on an annual basis.**

The Board of Directors has issued Rules of Procedure for the Executive Board detailing the overall duties, obligations and liabilities of the Executive Board, including specific authorizations under which the Executive Board may transact business. The Rules of Procedure and authorizations are subject to annual evaluation, update and approval by the Board of Directors.

In 2017/18, the Rules of Procedure were reviewed, updated and approved by the Board of Directors in June 2018.

2.1.5. Recommendation that the board of directors discusses the composition of the executive board, as well as developments, risks and succession plans, at least once a year.

The Board of Directors assesses the composition and performance of the Executive Board and other key management positions at least once a year, including a review of developments, risks and succession plans.

In 2017/18, the assessment was conducted at a board meeting in April 2018.

## **2.1.6. Recommendation to, once a year, discuss the company's activities to ensure appropriate diversity at management levels, including setting specific goals and accounting for its objectives and progress made.**

Once a year, the Board of Directors assesses the progress made by the company in achieving the objectives for relevant diversity at management levels.

The diversity objectives for the Board of Directors and corporate management teams, as well as progress made on these during the year, are presented in the Annual Report for 2017/18.

In 2017/18, two out of seven members of Chr. Hansen Holding A/S' Board of Directors elected by the general meeting are women, compared to a target of at least three women elected by the shareholders in general meeting by the end of 2021/22 whilst maintaining a strong diversity of skills, experience and nationalities.

## **2.2. Corporate social responsibility**

### **2.2.1. Recommendation to adopt policies on corporate social responsibility.**

The Board of Directors has adopted a Sustainability Position setting out the Company's commitments in this area. The Company reports non-financial data in the annual Sustainability Report, with the primary focus on sustainable products, climate & environmental sustainability, workplace responsibility, business and product integrity, and human rights and responsible sourcing. The Company has been a signatory to the UN Global Compact since September 2009.

Chr. Hansen's UN Global Compact Communication on Progress for 2017/18 is available at [www.chr-hansen.com](http://www.chr-hansen.com).

The report includes an overview of relevant policies and how they link with Chr. Hansen's sustainability ambitions as well as the governance structure on sustainability.

### **2.3. Chairman and vice chairman of the board of directors**

#### **2.3.1. Recommendation to appoint a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the chairman's absence.**

As soon as possible after each year's annual general meeting, a board meeting is held to appoint a Vice Chairman. The Vice Chairman acts as a sounding board and sparring partner to the Chairman.

Dominique Reiniche was reappointed Vice Chairman after the Annual General Meeting in November 2017. Dominique Reiniche has served on the Board of Directors since 2013 and as Vice Chairman since 2015. She is currently also a member of the Remuneration, Nomination and Scientific Committees.

#### **2.3.2. Recommendation to pass a board resolution ensuring that the board of directors maintains its independent overall management and control function in the event that the chairman of the board performs special operating activities for the company.**

The Chairman does not assume special tasks or participate in the day-to-day management of Chr. Hansen unless required to do so in exceptional circumstances. Such assignment or managerial involvement will always be confined to a limited period of time and requires the prior approval of the Board of Directors.

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The Chairman did not assume any special tasks or participate in the day-to-day management of Chr. Hansen during the 2017/18 financial year.

## **3. COMPOSITION AND ORGANIZATION OF THE BOARD OF DIRECTORS**

### **3.1. Composition**

#### **3.1.1. Recommendation that the board of directors accounts for the skills it requires to best perform its tasks, the composition of the board of directors and the special skills of each member on an annual basis.**

Each year, with input from the Nomination Committee, the Board of Directors is responsible for identifying the appropriate qualifications, experience and skills required of board candidates in order for the Board of Directors to best perform its tasks, taking into account Chr. Hansen's needs and the current composition of the Board of Directors. Nominations of candidates to be submitted to the general meeting are prepared accordingly.

The competencies that should be represented on the Board of Directors are determined in the Competency Profile, which is available at [www.chr-hansen.com](http://www.chr-hansen.com). The Competency Profile is reviewed annually by the Nomination Committee and presented to the Board of Directors for approval.

A profile of each board member, including his or her competencies is set out in the Annual Report and in the notice convening the Annual General Meeting and posted on [www.chr-hansen.com](http://www.chr-hansen.com).

With the re-election of five of the seven shareholder-elected members at the Annual General Meeting in November 2017 and the election of Jesper Brandgaard and Heidi Kleinbach-Sauter, the Board maintained a strong and diverse set of competencies within sales and marketing of fast moving consumer goods, strategic R&D, strategic planning and value creation, financial, accounting and financing matters, knowledge of relevant geographies, food industry experience, and leadership.

#### **3.1.2. Recommendation that the selection and nomination of candidates for the board of directors are carried out through a transparent process, taking into consideration the need to integrate new talent and diversity in terms of age, international experience and gender.**

Nominations of candidates to be submitted to a general meeting are prepared taking into account the nominees' skills and expertise with a view to ensuring a well-balanced and diverse

Board in terms of age, international expertise, nationality and gender. All nominations must be accompanied by detailed motivations and background information about the person in question.

At the Annual General Meeting held in November 2017, Jesper Brandgaard and Heidi Kleinbach-Sauter were elected as new members of the Board of Directors. Their election strengthened the diversity of the Board in terms of nationality, international experience, gender and age. With the re-election of five of the seven shareholder-elected members and the election of Jesper Brandgaard and Heidi Kleinbach-Sauter as new board members at the Annual General Meeting in November 2017, the Board maintained a diverse composition in terms of nationality, international expertise, gender and age.

#### **3.1.3. Recommendation that the description of the nominated candidates' qualifications includes information about other executive functions and demanding organizational tasks, and whether candidates are considered independent.**

The Company ensures that a presentation of the nominated candidates' qualifications, including information about other board functions and whether a candidate is considered to be independent, is sent out with the notice convening the Annual General Meeting when election of members to the Board of Directors is on the agenda. Members are elected for terms of one year.

At the Annual General Meeting held in November 2017, the description of each nominated candidate's suitability included information about other board functions. All nominated and elected candidates were considered to be independent.

#### **3.1.4. Recommendation that the articles of association stipulate a retirement age for members of the board of directors.**

At the Annual General Meeting held in November 2017, Chr. Hansen abolished the provision in its Articles of Association stipulating that only persons who are 70 years of age or younger at the time of election may be elected to the Company's Board of Directors. The Company does not believe that the age of the candidates for the Board of Directors in itself is relevant for the election to the Board of Directors. Accordingly, Chr. Hansen has pre-implemented the Danish Recommendations on Corporate Governance of November 23, 2017 as adopted by Nasdaq Copenhagen in its Rules for Issuers of Shares with effect from January 3, 2018, applicable to the Company with effect from the 2018/2019 Annual Report. The new recommendations do not contain such a recommendation.

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### **3.1.5. Recommendation that members of the board of directors elected by the general meeting be up for election every year at the general meeting.**

Pursuant to the Articles of Association, members of the Board of Directors elected by the General Meeting must step down at each Annual General Meeting but are eligible for re-election.

At the Annual General Meeting in November 2017, five members, including the Chairman, were re-elected, while two members chose not to stand for re-election. Two new members were elected.

### **3.2. Independence of the board of directors**

#### **3.2.1. Recommendation that at least half of the members of the board of directors elected by the general meeting are considered independent.**

The Company's Board of Directors currently comprises seven members elected by the Annual General Meeting. All seven members are deemed to be independent.

### **3.3. Members of the board of directors and number of other executive functions**

#### **3.3.1. Recommendation that each member of the board of directors assesses the expected time commitment for each function in order not to take on more functions than he/she can manage satisfactorily for the company.**

Each individual board member signs an agreement with Chr. Hansen under which the member commits not to take on more functions than they can manage satisfactorily for the Company.

#### **3.3.2. Recommendation that the management commentary includes information about the members of the board of directors in addition to the statutory provisions.**

The Annual Report includes information about each board member's position, age, nationality, gender, date of appointment, expiry of term, executive functions, board positions and other offices held, number of shares and similar instruments held, and whether the member is considered to be independent.

Management's Review in the Annual Report 2017/18 contains information in compliance with the requirements set out in section 3.3.2. of the Recommendations.

### **3.4. Board committees**

#### **3.4.1. Recommendation to publish information on the board committees on the company's website.**

The Board of Directors has established four committees: an Audit Committee, a Nomination Committee, a Remuneration Committee and a Scientific Committee.

Chr. Hansen discloses on [www.chr-hansen.com](http://www.chr-hansen.com) charters for the four committees, descriptions of important activities during the year, number of meetings, participation as well as names, positions and relevant qualifications.

#### **3.4.2. Recommendation that a majority of the members of a board committee are considered independent.**

The Audit Committee consists of four members who are all independent.

The Nomination Committee consists of three members who are all independent.

The Remuneration Committee consists of three members who are all independent.

The Scientific Committee consists of three members who are all independent.

Hence, the majority of the members of all committees are independent, and their composition thus adheres to the Recommendations

#### **3.4.3. Recommendation to set up a formal audit committee.**

The Audit Committee was established in 2010. The charter and overview of members of the Audit Committee can be found at [www.chr-hansen.com](http://www.chr-hansen.com). The charter complies with the requirements set out in section 3.4.3 of the Recommendations.

Since November 2017, the committee has been composed of Mark Wilson (Chairman), Jesper Brandgaard, Ole Andersen and Kristian Villumsen. All are independent members. All members have expertise and experience within the financial accounting and audit aspects of a listed company, and the members as a whole have competencies relevant to the industry in which Chr. Hansen operates, as required by the Danish Act on Approved Auditors and Audit Firms.

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**3.4.4. Recommendation that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors on significant accounting policies, significant accounting estimates, related party transactions, and uncertainties and risks, including in relation to the outlook for the current year.**

Pursuant to the Charter for the Audit Committee, the Audit Committee, amongst other things, monitors and reports to the Board of Directors on significant accounting policies and estimates, related party transactions, the company's tax policy, and uncertainties and risks, including in relation to the outlook, prior to the approval of the Annual Report and other financial reports.

During 2017/18, the Audit Committee monitored and reported on these items in accordance with an established annual schedule.

**3.4.5. Recommendation that the audit committee assesses the need for an internal audit, and monitors the executive board's follow-up on the conclusions and recommendations of the internal audit function, on an annual basis.**

Pursuant to the Charter for the Audit Committee, the Audit Committee assesses on an annual basis whether there is a need for an internal audit function.

In June 2018, the Audit Committee concluded that there is no need for an internal audit function for the time being, as the internal control function is effectively being performed by the finance organization and the Financial Compliance Officer. The conclusion was subsequently endorsed by the Board of Directors.

**3.4.6. Recommendation to establish a nomination committee chaired by the chairman of the board of directors.**

The Nomination Committee was established in 2010. The Charter and overview of members of the Nomination Committee can be found at [www.chr-hansen.com](http://www.chr-hansen.com). The Charter complies with the requirements set out in section 3.4.6 of the Recommendations.

Since November 2017, the committee has been composed of Ole Andersen (Chairman), Dominique Reiniche and Kristian Villumsen.

**3.4.7. Recommendation that the board of directors establishes a remuneration committee.**

The Remuneration Committee was established in 2010. The Charter and overview of members of the Remuneration Committee can be found at [www.chr-hansen.com](http://www.chr-hansen.com). The Charter complies with the requirements set out in section 3.4.7 of the Recommendations.

Since November 2014, the committee has been composed of Ole Andersen (Chairman), Dominique Reiniche and Mark Wilson.

**3.4.8. Recommendation that the remuneration committee does not consult with the same external advisers as the company's executive board.**

During 2017/18, the Remuneration Committee did not consult with the same external advisers as the Executive Board.

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

**3.5.1. Recommendation to establish an evaluation procedure to evaluate the contributions and results of the board of directors and its individual members.**

The Company performs an annual evaluation of the performance and achievements of the Board of Directors and its individual members as well as the cooperation with the Executive Board. The Chairman of the Board of Directors is in charge of the evaluation.

Details of the procedure for the 2017/18 evaluation and its outcome are described in the present annual corporate governance statement, which forms part of the 2017/18 Annual Report.

**3.5.2. Recommendation that the board of directors considers, in connection with preparation of the general meeting, whether the number of members is appropriate to the company's requirements.**

Pursuant to the Articles of Association, the Annual General Meeting shall elect at least three and no more than eight members to the Board of Directors, including a Chairman. In connection with preparing the Annual General Meeting, the Board of Directors considers whether this number is appropriate to the Company's requirements.

At the Annual General Meeting held in November 2017, the number of members of the Board of Directors elected by the Annual General Meeting remained at seven. Based on the Board's annual evaluation, the current number of board members is considered adequate at the present time.

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### **3.5.3. Recommendation that the board of directors evaluates the work and performance of the executive board at least once a year in accordance with clear, predefined criteria.**

At least once a year, the work and performance of the Executive Board is evaluated by the Board of Directors in accordance with predefined key performance indicators.

During 2017/18, the evaluation of the Executive Board had a highly satisfactory outcome, and all the predefined key performance indicators were met.

3.5.4. Recommendation to establish an annual procedure to evaluate the cooperation between the board of directors and the executive board.

The cooperation between the Board of Directors and the Executive Board is evaluated, and the outcome presented to the Board of Directors, in connection with the annual board evaluation, as well as through a formal dialogue between the Chairman of the Board of Directors and the CEO.

During 2017/18, the evaluation of the cooperation between the Board of Directors and the Executive Board had a highly satisfactory outcome.

## **4. REMUNERATION OF MANAGEMENT**

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

#### **4.1.1. Recommendation to prepare a clear and transparent remuneration policy for the board of directors and the executive board.**

The Annual General Meeting has adopted a Remuneration Policy applicable to the Board of Directors and the Executive Board. The policy is available on [www.chr-hansen.com](http://www.chr-hansen.com).

The Remuneration Policy was approved by the Annual General Meeting on November 28, 2017 and complies with the requirements set out in section 4.1.1 of the Recommendations.

#### **4.1.2. Recommendation regarding variable components in the remuneration policy.**

The Remuneration Policy includes variable components that comply with the requirements set out in section 4.1.2 of the Recommendations. Detailed guidelines for incentive-based remuneration were updated and approved by the Annual General Meeting on November 26, 2015. The guidelines can be found at [www.chr-hansen.com](http://www.chr-hansen.com).

The Annual Report 2017/18 contains a description of the main elements of the Remuneration Policy, including the variable components and their compliance with the requirements set out in section 4.1.2 of the Recommendations.

#### **4.1.3. Recommendation that the remuneration of the board of directors does not include share options.**

The Company's Remuneration Policy does not provide for share or warrant programs for members of the Board of Directors.

#### **4.1.4. Recommendation that share-based remuneration, if provided, is established as roll-over programs.**

The Annual General Meeting has adopted overall guidelines for incentive-based remuneration that requires Chr. Hansen to have a short- and a long-term incentive program. The programs comply with the requirements set out in section 4.1.4 of the Recommendations. The guidelines can be found at [www.chr-hansen.com](http://www.chr-hansen.com).

#### **4.1.5. Recommendation that agreements on termination payments should not amount to more than two years' annual remuneration.**

The Company's Remuneration Policy and guidelines for incentive-based remuneration comply with the requirements set out in section 4.1.5 of the Recommendations.

### **4.2. Disclosure of the remuneration policy**

#### **4.2.1. Recommendation that the remuneration policy and compliance with this are explained and justified in the chairman's statement at the general meeting.**

The Chairman's report at the Annual General Meeting held in November 2017 included an explanation and motivation of the Company's Remuneration Policy and guidelines for incentive-based remuneration, as well as an update on compliance with both the policy and the guidelines.

#### **4.2.2. Recommendation that the remuneration of the board of directors for the current financial year is approved at the general meeting.**

The remuneration of the Board of Directors is approved by the shareholders at each year's annual general meeting.

The remuneration for 2017/18 was approved by shareholders at the Annual General Meeting held on November 28, 2017.

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#### **4.2.3. Recommendation that the total remuneration granted to each member of the board of directors and the executive board is disclosed in the annual report, and that the linkage with the remuneration policy is explained.**

All remuneration granted to each member of the Board of Directors and the Executive Board is disclosed in the Annual Report and complies with the requirements set out in section 4.2.3 of the Recommendations.

The Annual Report 2017/18 includes a description of the total remuneration granted, including the key aspects of retention and severance programs and their compliance with the Remuneration Policy and guidelines for incentive-based remuneration.

## **5. FINANCIAL REPORTING, RISK MANAGEMENT AND AUDITS**

### **5.1. Identification of risks and transparency regarding other relevant information**

#### **5.1.1. Recommendation, in the management commentary, to review and account for the most important strategic and business-related risks, and risks in connection with the financial reporting, as well as the company's risk management.**

The Annual Report includes a description of the Company's Enterprise Risk Management process and a description of the most important business and financial risks identified in this process. A description of the risks associated with financial reporting is included in the present annual corporate governance statement.

The key strategic, operational and financial risks as identified in Chr. Hansen's Enterprise Risk Management process are described in the Annual Report 2017/18, including an evaluation of whether the risk profile has changed. The present annual corporate governance statement, which forms part of the Annual Report 2017/18, contains information on risks related to the financial reporting.

### **5.2. Whistleblower scheme**

#### **5.2.1. Recommendation to decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.**

A whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing has been in place since October 2013.

In 2017/18, one case was reported through the whistleblower hotline. The case has been closed as unsubstantiated. Chr. Hansen will continue to communicate about the whistleblower system to ensure that all employees and relevant stakeholders are aware of and familiar with it.

### **5.3. Contact with auditor**

#### **5.3.1. Recommendation to ensure regular dialogue and exchange of information between the auditor and the board of directors.**

The auditors are present at all meetings of the Audit Committee, and the Chairman of the Audit Committee maintains regular dialogue and exchange of information with the auditors on behalf of the Board of Directors. The Audit Committee and the Board of Directors meet with the auditors at least once a year without the Executive Board being present.

During 2017/18, the auditors participated in all the Audit Committee meetings and attended a private meeting with the Board of Directors in October 2017.

#### **5.3.2. Recommendation that the audit agreement and auditors' fee are agreed between the board of directors and the auditor based on a recommendation from the audit committee.**

The audit agreement and auditors' fees are agreed by the Board of Directors and the auditors based on a recommendation from the Audit Committee.

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## **MAIN ELEMENTS OF THE GROUP'S INTERNAL CONTROL AND RISK MANAGEMENT IN CONNECTION WITH ITS FINANCIAL REPORTING**

The purpose of Chr. Hansen's internal control and risk management system in relation to the financial reporting process is to ensure that external financial statements are presented in accordance with IFRS as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies, and to ensure that the financial statements give a true and fair view free from material misstatements.

Chr. Hansen's internal control and risk management system ensures that material errors or inconsistencies in the financial statements are identified and corrected. The internal control and risk management systems can only provide reasonable and not absolute assurance that all material errors and inconsistencies have been discovered and corrected. The internal control and risk management system comprises the following areas:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

### **Control environment**

The Board of Directors has appointed the Audit Committee to assist the Board of Directors in supervising the financial reporting process and the effectiveness of the Company's internal control and risk management system.

The Executive Board is responsible for maintaining effective controls and an effective risk management system. The Executive Board has implemented the controls necessary to mitigate the risks identified in relation to financial reporting. The composition of the Board of Directors, the Audit Committee and the Executive Board ensures the relevant competencies with respect to internal control and risk management within the financial reporting process. Powers and responsibilities are defined in the Board of Directors' Rules of Procedure for the Executive Board.

The Board of Directors approves policies for Business Integrity, Quality & Product Safety, People, Knowledge & Organization, Finance & IT and Communication, as well as Chr. Hansen's mission, vision and corporate values.

The Executive Board approves all other policies and regularly briefs the Board of Directors on such policies. The relevant functions at Chr. Hansen issue guidelines and monitor the application of all policies and procedures. Chr. Hansen's accounting policies are set out in the Chr. Hansen financial reporting guidelines, which is available to all employees.

### **Risk assessment**

The Board of Directors and the Executive Board regularly assess the risks to which Chr. Hansen is exposed, including risks related to financial reporting. The Audit Committee reviews certain high-risk areas at least once a year, including the following:

- Significant accounting estimates
- Material changes to the accounting policies
- Fraud risk assessment

At least once a year, the Executive Board and the Audit Committee consider whether the current internal control environment is effective in relation to the risks identified in the financial reporting process.

### **Control activities**

The Group's accounting competencies are reviewed on an ongoing basis in order to ensure an appropriate and satisfactory control environment.

Central functions are responsible for controlling financial reporting. Regional and divisional finance teams conduct reviews and tests to ensure correct financial reporting. All regional and divisional finance and IT functions report directly or indirectly to central functions.

Chr. Hansen has introduced standards for internal control relating to financial reporting. These standards are intended to ensure an adequate level of internal control, thus making the control environment effective.

The internal control standards are focused on segregation of duties and on detective and preventive controls. Regular audits across the organization, including at subsidiaries, are conducted to ensure an appropriate control environment.

The Audit Committee regularly assesses the need for an internal audit function. In June 2018, the Audit Committee concluded that there is no need for an internal audit function for the time being, as the current internal control and risk management system and processes are deemed sufficient.

### **Information and communication**

Chr. Hansen's financial reporting guidelines and other reporting instructions are updated on a regular basis. Updates are communicated to the global finance organization by means of newsletters, online meetings and finance conferences. All guidelines and instructions are also available on the Chr. Hansen intranet, where they can be accessed by all employ-

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ees. Chr. Hansen has a global IT setup that contains key data in relation to financial reporting and ensures a high degree of uniformity and transparency in systems and figures.

Decisions and analyses are based on up-to-date and relevant data. The IT systems are secured with general IT controls, and the ERP systems contain automated application controls that are reviewed on an ongoing basis.

## **Monitoring**

Financial reporting is controlled on an ongoing basis. Procedures have also been set up to ensure that any errors are communicated to and corrected by the reporting companies. Internal controls are subject to ongoing reviews in connection with regular compliance visits at subsidiaries to assess the procedures and compliance levels for internal controls. Conclusions from these reviews are submitted to the CEO, CFO, the Audit Committee and the external auditors.

Chr. Hansen's internal financial reporting ensures an effective process for monitoring the Company's financial results, making it possible to identify and correct the most important errors or omissions. The monthly financial reporting from the respective companies is analyzed and monitored by Group Accounting to identify any significant weaknesses in internal controls or failures to comply with procedures and the financial reporting manual, etc.

The Audit Committee follows up on a regular basis to ensure that any significant weaknesses in internal controls are eliminated, that any errors or omissions in the financial statements identified and reported by the auditors are corrected, and that controls or procedures are implemented to prevent such errors or omissions.

For a more detailed description of critical accounting estimates and judgments, please refer to note 1.2 to the Consolidated Financial Statements.