

CHR HANSEN

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# ANNUAL CORPORATE GOVERNANCE STATEMENT 2013/14

CF. SECTION 107B OF THE DANISH FINANCIAL STATEMENTS ACT

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# Annual corporate governance statement

## Statutory annual corporate governance statement, cf. Section 107b of the Danish Financial Statements Act

This annual corporate governance statement for Chr. Hansen Holding A/S forms part of Management's Review in the 2013/14 Annual Report and concerns the accounting period from 1 September 2013 to 31 August 2014. The statement includes a description of the Company's management structure, a review of the Company's position on the Danish Recommendations on Corporate Governance as adopted by NASDAQ OMX Copenhagen in its Rules for Issuers of Shares, and the main elements of the Chr. Hansen Group's internal control and risk management systems in relation to the Group's financial reporting.

### MANAGEMENT STRUCTURE

#### 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, and the two bodies are independent. 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 nine members, of whom six are elected by shareholders and three by employees. Currently, all six board members elected by shareholders, including the Chairman, are independent. All shareholder-elected members of the Board of Directors stand for election each year. The employee-elected members stand for election every fourth year in accordance with current legislation with the current term ending in 2017. The age limit is 70. The Board of Directors meets six to eight times a year and on an ad-hoc basis if necessary. In 2013/14, the Board of Directors met on eight occasions. 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.

The Chairman of the Board of Directors is responsible for

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

In 2013/14, the evaluation was conducted by the individual directors and executives anonymously completing a comprehensive online questionnaire which was then summarized by an external consultant. It is the intention that the Board evaluation will be externally facilitated every second year.

The results of the assessment process were presented to the Board of Directors in September 2014, by the external consultant. The report describes a number of areas in which the Board is both effective and very well-functioning and gives an overall impression of a high-performing Board of Directors. Almost all areas for improvement which 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 of the Board will hold individual meetings with each Director to review their performance.

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

#### Board committees

The Board of Directors may establish board committees with the purpose of preparing decisions and recommendations for evaluation and approval by the Board of Directors. In accordance with the Danish Recommendations on Corporate Governance, the Board of Directors has established four committees: an Audit Committee, a Remuneration Committee, a Nomination Committee and a Scientific Committee. Reporting to the Board of Directors, the committees have individual charters defining their main tasks and responsibilities. All committee members are independent.

### **Audit Committee**

The Board of Directors has established an Audit 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 the financial reporting process, the system of internal controls, the audit process and the Company's process for monitoring compliance with laws, regulations and 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. The current members of the Audit Committee are Mark Wilson (chairman, independent), Ole Andersen (independent, financial expert) and Frédéric Stévenin (independent, financial expert). The committee meets at least four times a year. In 2013/14, the Audit Committee met on four occasions. The meetings were conducted in accordance with an agreed annual wheel, ensuring compliance with recommendations and sufficient monitoring. The annual wheel reflects key events in the annual financial reporting cycle and the aforementioned responsibilities.

### **Remuneration Committee**

The Board of Directors has established a Remuneration Committee, which consists of at least three members of the Board of Directors elected by 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. The current members of the Remuneration Committee are Ole Andersen (chairman, independent), Henrik Poulsen (independent) and Dominique Reiniche (independent). The Committee meets at least twice a year. In 2013/14, the Remuneration Committee met on four occasions. Chr. Hansen's latest Remuneration Policy, supplemented by the Company's general guidelines for incentive-based remuneration, can be found at <http://investor.chr-hansen.com/documents.cfm>.

### **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 in regard to (i) nomination and appointment of members of the Board of Directors and the Executive Board, (ii) 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 (iii) conducting regular evaluations of the performance of the Board of Directors and the Executive Board. The current members of the Nomination Committee are Ole Andersen (chairman, independent), Henrik Poulsen (independent) and Mark Wilson (independent). The Committee meets at least twice a year. In 2013/14, the Nomination Committee met on four occasions.

### **Scientific Committee**

The Board of Directors has established a Scientific Committee, which currently consists of one member elected by the Board of Directors. The committee's role is to assist the Board of Directors in fulfilling its responsibilities in regard to the Company's research and 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 in the Company. The current member of the Scientific Committee is Søren Carlsen (chairman, independent).

### **Executive Board**

The Board of Directors appoints an Executive Board responsible for 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 three members and is chaired by the Chief Executive Officer.

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

The Company is subject to the Danish Recommendations on Corporate Governance, which are available on the Danish Committee on Corporate Governance's website, [www.corporategovernance.dk](http://www.corporategovernance.dk).

The schedule contains the Committee's recommendations of 6 May 2013 as adopted by NASDAQ OMX Copenhagen A/S in its Rules for Issuers of Shares with effect from 1 June 2013 and as amended in May 2014. Chr. Hansen complied with the recommendations of 6 May 2013 amended in May 2014 in all respects in 2013/14.

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>		
<b>1.1. Dialogue between the company and its shareholders</b>		
1.1.1. The Committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.	YES	<p>The dialogue between the Company and its shareholders takes the form of investor meetings, and telephone conferences are held following the publication of each interim report to provide participants with the opportunity to direct questions to Management. Webcasts of the same are subsequently available on the Company's website, <a href="http://www.chr-hansen.com">www.chr-hansen.com</a>. More than 250 meetings took place with institutional investors in 2013/14. Investors may also contact the Company's Investor Relations department to obtain additional information in order to maintain an ongoing dialogue.</p> <p>The Board of Directors has adopted a Communication Policy under which the Company is to comply with statutory requirements concerning the publication of material information relevant to shareholders' and the financial markets' evaluation of its activities, business objectives, strategies and results. In addition to the Company's communication and investor relations policies, its Board of Directors has approved a set of Internal Rules aimed at ensuring that the disclosure of such information complies with applicable stock exchange regulations.</p> <p>Announcements are published via NASDAQ OMX's news distribution source GlobeNewswire, and can subsequently be accessed on the Company's website, <a href="http://www.chr-hansen.com">www.chr-hansen.com</a>. The Company publishes interim and annual financial reports.</p> <p>All announcements in 2013/14 were published in Danish and English.</p>
1.1.2. The Committee recommends that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies	YES	<p>The Company is committed to maintaining a constructive and active dialogue with its shareholders and other stakeholders, and it takes its corporate social responsibility (CSR) very seriously. For years, environmental concerns, product safety and employee relations have been high on the agenda with special focus on immediate stakeholders: shareholders, customers, employees, suppliers and authorities. Within the framework of the United Nations Guiding Principles on Business and Human Rights, the Company aims to further develop assessments of both internal operations and, especially, suppliers.</p> <p>Once a year, the Company reports on CSR in its Communication on Progress to the UN Global Compact, available at <a href="http://www.chr-hansen.com/about-us/csr/reporting-downloads.html">http://www.chr-hansen.com/about-us/csr/reporting-downloads.html</a>.</p>

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
1.1.3. The Committee recommends that the company publish quarterly reports.	YES	The Company publishes interim reports. The reports are available on the Company's website, <a href="http://www.chr-hansen.com">www.chr-hansen.com</a> .
1.2. General meeting		
1.2.1. The Committee recommends that when organizing the company's general meeting, the board of directors plans the meeting to support active ownership.	YES	<p>The Company is committed to maintaining a constructive dialogue with its shareholders and other stakeholders and a high level of transparency when communicating with its shareholders. Regarding attendance at Annual General Meetings, the Board of Directors and the Executive Board encourage investors to participate actively in the Annual General Meeting. The meeting date for the Annual General Meeting is published in the Company's financial calendar. At present, the Annual General Meeting is held as a physical meeting. In the future, however, pursuant to the Articles of Association, electronic Annual General Meetings may take place as technology advances.</p> <p>The Board of Directors has resolved that the Annual General Meeting for the financial year 2013/14 shall be conducted by physical attendance and will be webcast on <a href="http://www.chr-hansen.com">www.chr-hansen.com</a>.</p>
1.2.2. The Committee recommends that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.	YES	<p>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 written and dated proxies in accordance with applicable laws in force at any given time. Both postal votes and proxy votes must consider each individual item on the agenda. The forms to be used in connection with postal and proxy voting are available on the Company's website, <a href="http://www.chr-hansen.com">www.chr-hansen.com</a>.</p>
1.3. Takeover bids		
1.3.1. The Committee recommends that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, 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.	YES	<p>The Company confirms that if it becomes aware that a takeover bid will or is likely to be submitted, it will not make decisions or initiate defense measures without the prior approval of the Annual General Meeting. The Company has prepared a takeover manual to ensure that shareholders will be given an opportunity to decide whether or not they wish to dispose of their shares in the Company under the terms offered.</p>

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<b>2. Tasks and responsibilities of the board of directors</b>		
2.1 Overall tasks and responsibilities		
2.1.1. The Committee recommends that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.	YES	Once a year, the Board of Directors determines its most important tasks in relation to its financial and managerial supervision, 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 which are reviewed at least once a year.
2.1.2. The Committee recommends that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	YES	At least once a year, the Board of Directors lays down the strategic objectives of the Company on the basis of proposals submitted by the Executive Board and approves the Company's general business policies and guidelines.
2.1.3. The Committee recommends that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and long term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors presents this in the management commentary on the company's annual report and/or on the company's website.	YES	The Board of Directors assesses annually whether the share capital and the share structure are in the Company's and the shareholders' best interests. The findings are presented in the 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.
2.1.4. The Committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.	YES	The Board of Directors has issued Rules of Procedure for the Executive Board covering the overall duties, obligations and liabilities of the Executive Board, including specific authorizations within 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. The Rules of Procedure for the Executive Board are attached to the Rules of Procedure for the Board of Directors.
2.1.5. The Committee recommends that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.	YES	At least once a year, the Board of Directors assesses the composition and the performance of the Executive Board, as well as developments, risks and succession planning.

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
2.1.6. The Committee recommends that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.	YES	Once a year, the Board of Directors assesses the Company's activities to ensure that measurable objectives for diversity have been established, and the status is presented in the Annual Report.
2.2. Corporate social responsibility		
2.2.1. The Committee recommends that the board of directors adopt policies on corporate social responsibility.	YES	The Board of Directors has adopted a Corporate Social Responsibility Policy setting out the Company's commitments in this area. The Company reports non-financial data with primary focus on the environment, product safety, employee relations, sustainable sourcing and social involvement. Since September 2009, the Company has been a member of the UN Global Compact.
2.3. Chairman and vice-chairman of the board of directors		
2.3.1. The Committee recommends appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.	YES	As soon as possible after the Annual General Meeting in any year, a Board meeting is held for the purpose of electing a Vice Chairman. The role of the Vice Chairman is in accordance with the recommendations.
2.3.2. The Committee recommends ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.	YES	The Chairman of the Board of Directors does not assume special tasks for the Company or participate in day-to-day management, unless in exceptional circumstances there is a special need for this, in which case such assignment or managerial involvement shall be subject to the prior approval of the Board of Directors and be confined to a limited period of time.

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<b>3. Composition and organization of the board of directors</b>		
3.1. Composition		
<p>3.1.1. The Committee recommends that the board of directors annually accounts for</p> <ul style="list-style-type: none"> <li>■ the skills it must have to best perform its tasks,</li> <li>■ the composition of the board of directors, and</li> <li>■ the special skills of each member.</li> </ul>	YES	<p>The Board of Directors of Chr. Hansen Holding A/S, with input from the Nomination Committee, is responsible for annually determining 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 the Company's needs and the current composition of the Board of Directors. Nominations of candidates to be submitted to the Annual General Meeting are prepared in light of this. The Board of Directors has adopted a specification of competencies to be applied when nominating candidates. The specification is available on the Company's website, <a href="http://www.chr-hansen.com">www.chr-hansen.com</a>.</p>
<p>3.1.2. The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.</p>	YES	<p>Nominations of candidates to be submitted to the Annual General Meeting are prepared in light of the competencies specified. Each nomination will always be accompanied by detailed explanations and background information concerning the person in question. In 2012, the Company set objectives for management diversity that include the Board of Directors.</p>
<p>3.1.3. The Committee recommends that a description of the nominated candidates' qualifications, including information about the candidates'</p> <ul style="list-style-type: none"> <li>■ other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises, be accompanied by the notice convening the general meeting when election of members to the board of directors is on the agenda.</li> <li>■ demanding organizational tasks, and information</li> <li>■ about whether candidates to the board of directors are considered independent.</li> </ul>	YES	<p>The Company ensures that a description of the nominated candidates' qualifications, including information about other board functions and whether they are considered 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 one year at a time.</p>



Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
3.1.4. The Committee recommends that the company's articles of association stipulate a retirement age for members of the board of directors.	YES	Only persons who are 70 years of age or younger at the time of election can be elected to the Company's Board of Directors.
3.1.5. The Committee recommends that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.	YES	Pursuant to the Articles of Association, members of the Board of Directors elected by the Annual General Meeting must retire from office at each Annual General Meeting, but will be eligible for re-election.
3.2. Independence of the board of directors		
3.2.1. The Committee recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not:	YES	The Company's Board of Directors currently consists of six members elected by shareholders and three members elected by employees. All the members elected by shareholders are independent. All independent members comply with the requirements in this section.
<ul style="list-style-type: none"> <li>■ be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,</li> <li>■ within the past five years, have received larger emoluments from the company/group,</li> <li>■ a subsidiary undertaking or an associate in another capacity than as member of the board of directors,</li> <li>■ represent the interests of a controlling shareholder,</li> <li>■ within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate.</li> <li>■ be or within the past three years have been employed or partner at the external auditor,</li> <li>■ have been chief executive in a company holding cross-memberships with the company,</li> <li>■ have been member of the board of directors for more than 12 years, or</li> <li>■ have been close relatives with persons who are not considered independent.</li> </ul>		

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
3.3. Members of the board of directors and the number of other executive functions		
3.3.1. The Committee recommends that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.	YES	Each individual board member signs an agreement with the Company under which the member commits not to take on more functions than he/she can manage in a satisfactory way for the Company.
3.3.2. The Committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:	YES	The Company's Annual Report lists the names of the members who are regarded as independent. In connection with the election of new candidates to the Board of Directors, information is provided as to whether each candidate is considered independent.
<ul style="list-style-type: none"> <li>■ the position of the relevant person,</li> <li>■ the age and gender of the relevant person,</li> <li>■ whether the member is considered independent,</li> <li>■ the date of appointment to the board of directors of the member,</li> <li>■ expiry of the current election period,</li> <li>■ other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and demanding organizational tasks, and</li> <li>■ the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.</li> </ul>		The Company's Annual Report contains information in compliance with these requirements.

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
3.4. Board committees		
<p>3.4.1. The Committee recommends that the company publish the following on the company's website: The terms of reference of the board committees,</p> <ul style="list-style-type: none"> <li>■ the most important activities of the committees during the year, and the number of meetings held by each committee, and</li> <li>■ the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	YES	<p>The Board of Directors has established four committees: an Audit Committee, a Nomination Committee, a Remuneration Committee and a Scientific Committee.</p> <p>Charters for each committee are briefly described in this annual corporate governance statement, which forms part of the 2013/14 Annual Report. The charters can be found on <a href="http://www.chr-hansen.com">www.chr-hansen.com</a> in their entirety.</p>
3.4.2. The Committee recommends that a majority of the members of a board committee be independent.	YES	All members of the committees are independent.
<p>3.4.3. The Committee recommends that the board of directors set up a formal audit committee composed such that</p> <ul style="list-style-type: none"> <li>■ the chairman of the board of directors is not chairman of the audit committee, and</li> <li>■ between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.</li> </ul>	YES	<p>The Board of Directors has established an Audit Committee. Its charter is briefly described in this annual corporate governance statement, which forms part of the 2013/14 Annual Report.</p> <p>The Committee consists of Mark Wilson (chairman and independent member), Ole Andersen (Chairman of the Board of Directors and independent member) and Frédéric Stévenin (independent member). All committee members have the required competencies.</p>
<p>3.4.4. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports 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>	YES	<p>Pursuant to the Charter for the Audit Committee and prior to the approval of the Annual Report and other financial reports, the Audit Committee monitors and reports to the Board of Directors on:</p> <ul style="list-style-type: none"> <li>■ significant accounting policies</li> <li>■ significant accounting estimates</li> <li>■ related-party transactions</li> <li>■ uncertainties and risks, including in relation to the outlook</li> <li>■ the company's tax policy</li> </ul> <p>The meetings of the Audit Committee are scheduled in accordance with an annual wheel.</p>

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<p>3.4.5. The Committee recommends that the audit committee:</p> <ul style="list-style-type: none"> <li>■ annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>■ monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	YES	<p>Pursuant to the charter for the Audit Committee, the Committee assesses annually whether there is a need for an internal audit function. The Audit Committee has concluded that for the time being there is no need for an internal audit function, as the internal control environment is considered adequate.</p>
<p>3.4.6. The Committee recommends that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>■ describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,</li> <li>■ annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,</li> <li>■ annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect,</li> <li>■ consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and</li> <li>■ propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>	YES	<p>The Board of Directors has established a Nomination Committee. Its charter is briefly described in this annual corporate governance statement, which forms part of the 2013/14 Annual Report, and complies with the recommendations in this section.</p>

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<p>3.4.7. The Committee recommends that the board of directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>■ to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,</li> <li>■ make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and</li> <li>■ recommend a remuneration policy applicable for the company in general.</li> </ul>	YES	<p>The Board of Directors has established a Remuneration Committee. Its charter is briefly described in this annual corporate governance statement, which forms part of the 2013/14 Annual Report, and complies with the recommendations in this section.</p>
<p>3.4.8. The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	YES	<p>The Remuneration Committee ensures that it does not consult with the same external advisers as the Executive Board of the Company.</p>

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
3.5. Evaluation of the performance of the board of directors and the executive board		
3.5.1. The Committee recommends that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.	YES	<p>The Company undertakes an annual evaluation of the performance and achievements of the Board of Directors and its individual members.</p> <p>The Chairman of the Board of Directors is in charge of the evaluation, and the details of the procedure for the evaluation and its outcome are described in this annual corporate governance statement, which forms part of the 2013/14 Annual Report.</p>
3.5.2. The Committee recommends that in connection with preparation of the general meeting, the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.	YES	<p>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. The Company's Board of Directors currently consists of six members elected by shareholders and three members elected by employees. The number of board members is considered adequate at the present time. In connection with the preparation of the Annual General Meeting, the Board of Directors considers whether the number is appropriate in relation to the requirements of the Company.</p> <p>In addition, the outcome of the Board's annual evaluation of the Board's work indicates that the debate is constructive and effective, and that the decision-making process enables the members to play an active role.</p>
3.5.3. The Committee recommends that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.	YES	At least once every year, the work and performance of the Executive Board is evaluated by the Board of Directors in accordance with predefined key performance indicators.
3.5.4. The Committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalized 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.	YES	In connection with the annual board evaluation, as well as through a formalized dialogue between the Chairman of the Board of Directors and the Chief Executive Officer, the cooperation between the Board of Directors and the Executive Board is evaluated, and the outcome of the evaluation is presented to the Board of Directors.

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<b>4. Remuneration of management</b>		
4.1. Form and content of the remuneration policy		
<p>4.1.1. The Committee recommends that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including</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, and</li> <li>■ a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> <p>The remuneration policy should be approved by the general meeting and published on the company's website.</p>	YES	<p>The Board of Directors has adopted a Remuneration Policy applicable to the Board of Directors and the Executive Board. The latest update was made on 29 November 2011 and is available on the Company's website, <a href="http://www.chr-hansen.com">www.chr-hansen.com</a>.</p> <p>The Company's Remuneration Policy complies with the recommended criteria.</p>
<p>4.1.2. The Committee recommends that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>■ limits be set on the variable components of the total remuneration package,</li> <li>■ a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,</li> <li>■ there be clarity about performance criteria and measurability for award of variable components,</li> <li>■ there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>■ an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.</li> </ul>	YES	<p>The Company's Remuneration Policy complies with the recommended criteria.</p>
<p>4.1.3. The Committee recommends that remuneration of members of the board of directors does not include share options</p>	YES	<p>The Company's Remuneration Policy does not include share or warrant programs for the members of the Board of Directors.</p>
<p>4.1.4. The Committee recommends that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.</p>	YES	<p>The Board of Directors has adopted an overall guideline for incentive-based remuneration. The guideline requires the Company to have a short-term and a long-term incentive program. The programs comply with the recommended criteria. The guideline can be found on the Company's</p>

Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
4.1.5. The Committee recommends that agreements on termination payments should not amount to more than two years' annual remuneration.	YES	<p>website at <a href="http://investor.chr-hansen.com/documents.cfm">http://investor.chr-hansen.com/documents.cfm</a>.</p> <p>The Company's Remuneration Policy complies with the recommended criteria.</p>
4.2. Disclosure of the remuneration policy		
4.2.1. The Committee recommends that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.	YES	The Chairman's statement at the Company's Annual General Meeting includes an explanation and justification of the Company's Remuneration Policy and compliance with the same.
4.2.2. The Committee recommends that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.	YES	The remuneration of the Board of Directors for the current financial year was approved by shareholders at the Annual General Meeting of 26 November 2013.
4.2.3. The Committee recommends that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.	YES	<p>Any remuneration granted to each member of the Board of Directors and the Executive Board is disclosed in the Annual Report of the Company and complies with the recommended criteria.</p> <p>The Company discloses the most important aspects of retention and severance programs in its Annual Report.</p>



Recommendation	The Company complies	The Company complies/does not comply with the recommendation for the following reason:
<b>5. Financial reporting, risk management and audits</b>		
5.1. Identification of risks and transparency about other relevant information		
5.1.1. The Committee recommends that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	YES	<p>The Company prepares an Annual Report and other financial reports, which are supplemented by additional non-financial information.</p> <p>When preparing the Annual Report, the most important business and financial risks are identified in connection with the realization of the Company's strategy and overall goals, as well as the risks associated with financial reporting.</p>
5.2. Whistleblower scheme		
5.2.1. The Committee recommends that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.	YES	The Board of Directors has established a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing. The scheme was implemented globally in October 2013.
5.3. Contact to auditor		
5.3.1. The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.	YES	<p>The Company's auditors are present at all meetings of the Audit Committee, and the chairman of the Audit Committee, on behalf of the Board of Directors, maintains a regular dialogue and exchange of information with the auditors.</p> <p>The Audit Committee and the Board of Directors meet with the auditors at least once every year without the Executive Board being present.</p>
5.3.2. The Committee recommends that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.	YES	The audit agreement and the auditors' fee are agreed between the Board of Directors and the auditors on the basis of a recommendation from the Audit Committee.

# 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 misstatement.

Chr. Hansen's internal control and risk management system ensures that material errors or inconsistencies in the financial statements are identified and corrected as far as possible. 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 set up an 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 address 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 in relation to 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, Knowledge, People & 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 manual, which is available to all employees.

## Risk assessment

The Board of Directors and the Executive Board regularly assess the risks that Chr. Hansen is exposed to, 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

Group Accounting's competencies are reviewed on an ongoing basis in order to ensure an appropriate and satisfactory control environment. All regional finance and IT functions report directly or indirectly to central functions. Central controlling functions are responsible for controlling financial reporting.

Chr. Hansen has introduced standards for internal control relating to financial reporting. These standards are intended to ensure a certain minimum level of internal control, thus making the control environment effective. The internal control standards are focused on separating functions and on detective and preventive controls.

Group Accounting exercises ongoing controls in order to ensure an appropriate control environment. The Audit Committee has

assessed the need for an internal audit function and decided not to establish one at present, as the current internal control and risk management system and processes are deemed sufficient.

### **Information and communication**

Chr. Hansen's financial reporting manual and other reporting instructions, including accounting instructions and policies on credit-granting and capital expenditure, are updated on a regular basis. Updates are communicated to the global finance organization through monthly letters, seminars and webcasts. All manuals and instructions are also available on the Chr. Hansen intranet, where they can be accessed by all employees.

Chr. Hansen has a global IT set-up 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, and procedures have been established to check and test such reporting. 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 the regular control inspections at subsidiaries. Conclusions from these reviews are submitted to the Executive Board, 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 any errors or omissions. The monthly financial reporting from the respective companies is analyzed and monitored by Group Accounting in order to identify any significant weaknesses in internal controls, 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.