

Corporate governance 2015

# Responsibility at work



Independent directors

**83%**

Unchanged

Non-Danes in Top-100 management

**60%**

Down from 66%

Female managers

**9.7%**

Down from 10.3%

Number of registered shareholders

**44,000**

Down from 52,000

# Corporate governance 2015

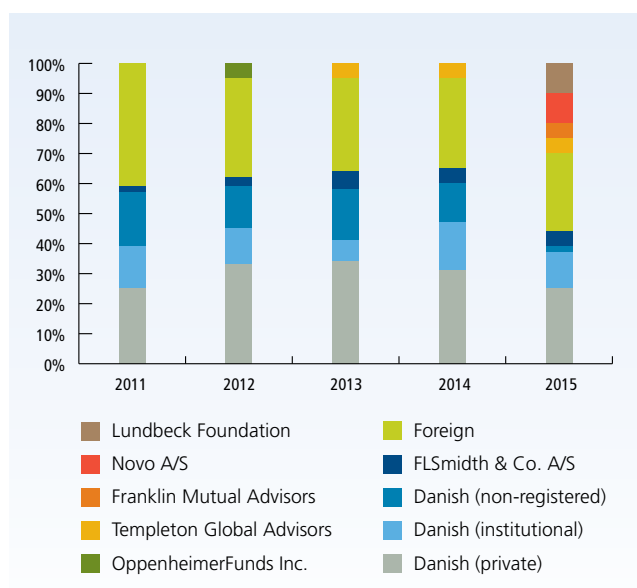
The following statutory statement pursuant to the Danish Financial Statements Act Section 107b is part of the Management's Review in the 2015 Annual Report.

## Capital and share structure

FLSmidth & Co. A/S is listed on NASDAQ OMX Copenhagen. No special rights are attached to any share and there are no restrictions on the transferability of the shares. At the end of 2015, FLSmidth had about 44,200 registered shareholders.

At the end of 2015, two shareholders, Lundbeck Foundation and Novo A/S, had reported an investment exceeding 10%, and two shareholders, Franklin Resources Inc. and Templeton Global Advisors (part of Franklin Resources Inc.) had reported an investment exceeding 5%.

## Historical development in shareholder structure



## Management structure

According to general practice in Denmark, FLSmidth maintains a clear division of responsibility and separation between the Board of Directors and the Group Executive Management. Tasks and responsibilities are defined at an overall level via rules of procedure for the Board of Directors and rules of procedure for the Group Executive Management. In addition, terms of reference apply to the Board committees.

The Group Executive Management is responsible for the day-to-day business of the company, and the Board of Directors oversees the Group Executive Management and handles overall managerial issues of a strategic nature. The Chairman is the Board of Directors' primary liaison with the Group Executive Management.

## The Board of Directors

### Composition of the Board of Directors

The Board of Directors is elected at the Annual General Meeting apart from those Board members who are elected pursuant to the provisions of the Danish Companies Act on employee representation.

Board members elected at the Annual General Meeting constitute not less than five and not more than eight members, currently six members, in order to maintain a small, competent and quorate Board. The members of the Board elected at the Annual General Meeting retire at each Annual General Meeting. Re-election may take place.

Pursuant to the provisions of the Danish Companies Act regarding employee representation, FLSmidth's employees are represented on the Board by currently three members, who are elected for four years at a time. The last election took place in 2013, the next will take place in January 2017. Immediately after the Annual General Meeting, the Board of Directors elects, from its own members, a Chairman and a Vice Chairman.

A job and task description has been created and outlines the duties and responsibilities of the Chairman and the Vice Chairman.



Board meetings are called and held in accordance with the Board rules of procedure and its annual plan. In general, between six and eight standard Board meetings are held every year. However, when deemed necessary, additional meetings may be held. To enhance Board meeting efficiency, the Chairman conducts a planning meeting with the CEO and CFO prior to each Board meeting.

In 2015, nine Board meetings were held. Apart from contemporary business issues, the most important issues dealt with were: the recruitment of new members to the Board, divisional strategies, attracting and retaining the right people including a new incentive program, and a deep-dive into the new Product Companies division.

To achieve a highly informed debate with the Group Executive Management, the Company strives for a Board membership profile reflecting substantial managerial experience from internationally operating industrial companies.

At least one member of the Board must have CFO experience from a major listed company, and all other members must have CEO experience from a major internationally operating and preferably listed company. The composition of the Board of Directors reflects that all members elected at the Annual General Meeting hold competencies in acquisition and sale of companies, financing and stock market issues, international contracts and accounting. In addition, it is preferable that a majority of the Board members have a background in construction contracting and possess technical expertise on process plants and process technology, preferably including the cement and/or minerals industries.

All members of the Board elected at the Annual General Meeting, except for Mr. Torkil Bentzen are independent as defined by the Committee on Corporate Governance, which is an independent Danish body promoting corporate governance in Danish companies. Mr. Torkil Bentzen has been a member of the Board & Directors since 2002, and hence more than the 12 years-limit defined by the Committee.

As part of its annual plan, the Board of Directors performs an annual self-evaluation to evaluate the contribution, engagement and competencies of its individual members. The Chairman is responsible for the evaluation which is conducted by an external provider.

### **Remuneration of the Board**

The Board of Directors' total remuneration consists of an annual cash payment for the current financial year, which is submitted for approval at the Annual General Meeting. The cash payment currently consists of a basic fee of DKK 400,000 to each Board member, graded in line with additional tasks and responsibilities as follows:

a.	Ordinary Board members	100% of the basic fee
b.	Board Vice Chairman	200% of the basic fee
c.	Board Chairman	300% of the basic fee
d.	Committee Chairman	+50% of the basic fee
e.	Committee members	+25% of the basic fee

The Chairman and the Vice Chairman do not receive payment for committee work.

### **The nomination committee**

The nomination committee consists of Mr. Vagn Sørensen and Mr. Torkil Bentzen. In 2015, the committee met 4 times. Its main activities in 2015 have been related to the search for new candidates to the Board of Directors.

### **The compensation committee**

The compensation committee consists of Mr. Vagn Sørensen and Mr. Torkil Bentzen. The compensation committee met 5 times in 2015, and the committee's main activities in 2015 were to consider and determine the Group Executive Management's pay and incentive plans, as well as approval of incentive plans and overall remuneration schemes for the management layer reporting to the Group Executive Management, including the development and approval of a new incentive plan from 2016 based on conditional shares, as adopted by the Annual General Meeting in March 2015.

### **The audit committee**

The audit committee consists of Mr. Tom Knutzen (Chairman), Mr. Sten Jakobsson and Mr. Vagn O. Sørensen who are all independent and have considerable insight and experience in financial matters, accounting and auditing in listed companies.

The audit committee meets at least four times per year. In 2015, the audit committee met 6 times and the committee's main activities in 2015 were to look into specific financial, accounting and auditing matters, as well as paying special attention to the Group's capital efficiency, cost structure and level of risk - taking a more challenging market environment into account.

In general, the main tasks of the audit committee are to assist the Board of Directors in:

- Monitoring the financial reporting process
- Monitoring the efficiency of the company's internal control system and any internal auditing and risk management systems
- Monitoring the statutory audit of the annual report
- Appointing the Company's independent auditors
- Monitoring and checking the independence of the auditors, including, in particular, the delivery of non-audit services to the Company.

Once a year, the audit committee assesses the need for internal audit and submits recommendations for any steps considered necessary as a consequence of this. So far, the audit committee and the Board of Directors have not considered it necessary to introduce internal audit in addition to the company's Group Control and Project Control functions and the external auditor.

Additionally, the audit committee is authorised to perform other tasks in connection with financial, accounting and auditing matters plus risk management in the Group as considered relevant by the committee.

#### ***The technology committee***

The technology committee consists of three Board members, Mr. Torkil Bentzen (Chairman), Mr. Martin Ivert and Mrs. Caroline Gregoire Sainte Marie. The technology committee meets at least three times a year and met 4 times in 2015. The main tasks in 2015 have been to monitor the major development projects across the divisions.

The main task of the technology committee is to assist the Board of Directors and to:

- Monitor and evaluate the competitiveness of process flowsheets and key machines, including listening to the voice of the customer
- Monitor and evaluate own major development projects and overall plans
- Monitor and evaluate plans for technology M&A (gaps, additions, substitutions, exits)
- Monitor and evaluate IPR portfolio and strategy
- Monitor and evaluate overall technology strategy

The technology committee is authorised to investigate any matter that lies within its charter, with full access to all company information, facilities and employees.

#### ***The Group Executive Management***

##### ***Composition of the Management***

The Group Executive Management currently consists of eight members who hold overall responsibility for the day-to-day operations of the Group. The members of the Group Executive Management are all experienced business executives who each brings with them

insight and hands-on experience that matches the needs, practical issues and challenges currently facing FLSmidth.

There have been no changes to the composition of the Group Executive Management during 2015.

#### ***Remuneration of the Group Executive Management***

The Board has adopted a remuneration policy for the Group Executive Management establishing a framework for variable salary components in order to support the company's short- and long-term goals. The purpose is to ensure that the pay system does not lead to imprudence, short-term behavior or unreasonable risk acceptance on the part of the Group Executive Management. The Board's compensation committee considers from time to time the Group Executive Management's remuneration.

The total remuneration of the Group Executive Management consists of the following components:

- Fixed salary ("gross salary") including pension
- Usual accessory benefits such as car, telephone, newspaper, etc.
- Cash bonus (up to 40% of the gross salary)
- Long term incentive programme (up to 25% of the gross salary)

Remuneration agreements for the Group Executive Management include a right for the company to demand full or partial repayment of variable pay components which have been paid out based on information that is subsequently proved to be incorrect. Agreements regarding severance allowance shall not exceed two years' pay.

In 2015, the allocation of cash bonus was tied to the following components: order intake, ROCE, EBITA and net working capital. In 2016, the allocation of cash bonus will be tied to the following components: quality, EBITA, net working capital and order intake.

In accordance with the guidelines for incentive pay adopted by the Annual General Meeting in 2015, the current share option program will be phased out. A new long-term incentive scheme based on conditional shares (performance shares) will be introduced with effect from 2016.

The Group CEO's remuneration is disclosed separately, whereas the remuneration of the rest of the Group Executive Management is stated as one total sum.

#### ***Diversity in Board and Management***

The Board of Directors of FLSmidth continuously evaluates the diversity of the Board and the Group Executive Management as well as among managers and employees, and in future recommendations and appointments diversity will deliberately be taken into account when considering the profiles and qualifications of potential candidates.

At the end of 2015, women accounted for 17% (end 2014: 17%) of the members of the Board of Directors elected at the general assembly. The Board originally set as a target that minimum 25% of the members elected at the annual general meeting in 2016 should be female. This target will not be reached.

At the end of 2015, women accounted for 13% (end 2014: 14%) of the total workforce, whilst 9.7% of all managers were female (end 2014: 10.3%). The Group target is that minimum 15% of all managers should be female by 2018. When filling management vacancies externally, at least one female candidate must be in the run-up.

Due to FLSmidth's global presence in over 50 countries, the total workforce naturally reflects a multitude of cultures and nationalities. The Board of Directors has set a long-term goal according to which global managers (top 100) should to a greater extent reflect the representation of nationalities among all employees and the geographical location of FLSmidth's technology centres in Denmark, Germany and the USA. Today, non-Danes account for 60% (2014: 66%) of the total number of global managers (top 100), but 9% of the total number of employees (end of 2014: 9%). At the end of 2015, non-Danes accounted for 63% (end 2014: 63%) of the members of Group Executive Management.

### **Presentation of financial statements and internal controls**

To ensure a high quality of the Group's financial reporting, the Board of Directors and the Group Executive Management have adopted a number of policies, procedures and guidelines for presentation of the financial statements and internal controls which the subsidiaries and reporting entities must adhere to, including:

- Continuous monitoring of goals and results achieved measured against approved budgets
- Continuous monitoring of projects including accounting for and handling of risks
- Policies for use of IT, insurance, cash management, procurement, etc.
- Reporting instructions and reporting manual
- Finance manual
- Closing procedure manual

Responsibility for maintaining sufficient and effective internal controls and risk management in connection with financial reporting lies with the Group Executive Management.

The audit committee continuously monitors the process of financial reporting and the adequacy and effectiveness of the internal control systems established, including new accounting standards, accounting policies and accounting estimates. The audit committee monitors and checks the independence of the external auditor and monitors the planning, execution and conclusions of the external audit.

### **Compliance with recommendations for corporate governance**

Pursuant to Section 4.3 of the rules for issuers of shares listed on NASDAQ OMX Copenhagen, Danish companies must give a statement on how they address the recommendations on Corporate Governance issued by the committee on Corporate Governance May 2013 based on the 'comply or explain' principle ([www.corporategovernance.dk](http://www.corporategovernance.dk)). FLSmidth's position on each specific recommendation is summarised on the following pages.

In the Board's opinion FLSmidth complies with all the recommendations, apart from 4.2.3, which is only partially fulfilled: Recommendation 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.

FLSmidth's explanation: The company discloses the total remuneration granted to each member of the Board of directors by the company as well as the total remuneration of the Group CEO. However, the remuneration of the rest of the Group Executive Management is stated as one total sum. In the Board's opinion, shareholders have a right to know the Group CEO's pay, whilst the remuneration of each of the other members of the Group Executive Management is not relevant for shareholders.

# Corporate governance **Statement 2015**

FLSmidth compliance with Danish Corporate Governance Recommendations



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Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>				
<b>1.1. Dialogue between company, shareholders and other stakeholders</b>				
1.1.1. The Committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders 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.				<p>The Board and the Executive Management value and encourage shareholders' active participation in the company's affairs through the channels and means available to them, either according to statutory rules or by other means, notably the Company's Annual General Meeting.</p> <p>FLSmidth &amp; Co. A/S aims at maintaining seamless and efficient communication with its shareholders, for example through the internet.</p> <p>Among other channels, FLSmidth &amp; Co. A/S provides information to its shareholders via its website, interim reports, annual reports, electronic and printed newsletters and announcements to the Copenhagen Stock Exchange, as well as at General Meetings of shareholders.</p> <p>After the release of quarterly interim reports, investor meetings are held in Denmark and abroad, and teleconferences (direct webcasts) are held during which questions can be put directly to members of the Executive Management.</p> <p>In addition, investors have the possibility of directly contacting the Executive Management and the Board via the Company's shareholder secretariat and Investor Relations function whose task it is to maintain an ongoing dialogue between the company and its present and future prospective shareholders.</p>
1.1.2. The Committee <b>recommends</b> that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.				<p>Link to Investor Relations policy: <a href="http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies/Investor+Relations">http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies/Investor+Relations</a></p> <p>Link to other business policies: <a href="http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies">http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies</a></p> <p>Additionally, the Board of Directors has adopted a tax policy, which is reviewed on a regular basis.</p>
1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports				FLSmidth & Co. has published quarterly reports since August 2000.
<b>1.2. General meeting</b>				
1.2.1. The Committee <b>recommends</b> that when organising the company's general meeting, the board of directors plans the meeting to support active ownership.				<p>Shareholders can exert influence by participating in and voting at general meetings. Besides, each shareholder has the right to address the Board of Directors and the other shareholders who participate in the General Meeting, either verbally at the meeting or in writing before the General Meeting.</p> <p>Any shareholder is entitled to ask for specific topics and proposals to be considered at the Annual General Meeting. In order to be discussed and/or considered at the General Meeting resolutions proposed by the shareholders must be submitted in writing to the Board of Directors within the statutory time limits.</p>

1.2.1. continued next page

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
				<p>Since 2006, voting by shareholders has been based on the principle of "one share – one vote", as FLSmidth at that time abandoned the former A and B share classes, which provided different voting rights for A and B shares, and went to one common class of shares.</p> <p>Shareholders who are not present at general meetings may exercise their influence by way of proxy to another person, including to the Board of Directors, or by casting their vote by letter. According to the Danish Companies Act proxies given to the Board of Directors must be limited to one particular General Meeting.</p> <p>Shareholders may also attend general meetings accompanied by a professional adviser.</p>
1.2.2. The Committee <b>recommends</b> that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.				Together with the notice of the Annual General Meeting the Board of Directors sends out proxy forms that enable the shareholders to place their vote regarding each item on the agenda.
<b>1.3. Takeover bids</b>				
1.3.1. The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. 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.				The company has set up contingency procedures in the event of a takeover bid. The Board of Directors complies with the issuer rules of the Companies Act, the Securities Trading Act and Nasdaq Copenhagen regarding the obligation of the Board of Directors to assess any takeover bids and prepare the Board's recommendations to the company's shareholders. Based on its assessment of how binding and concrete a take-over bid is in fact, the Board of Directors assesses whether the bid is sufficiently binding and concrete for the Board to form a well-informed opinion on the offer and for the Board to submit a reasoned recommendation to the shareholders, and if this is the case what the Board of Directors wishes to recommend to the shareholders.
<b>2. Tasks and responsibilities of the board of directors</b>				
<b>2.1. Overall tasks and responsibilities</b>				
2.1.1. The Committee <b>recommends</b> that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.				As part of the Board's annual plan, its rules of procedure and duties are reviewed once a year in relation to the company's current situation, challenges and strategic objectives.
2.1.2. The Committee <b>recommends</b> 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.				<p>In connection with the on-boarding of the new CEO in 2013, a health check of the company' strategy was undertaken by the Board of Directors. As a continuation of the strategy health check, a new divisional structure was announced in August 2014 and became operational on 1 January 2015. During the summer of 2015, a review of all product lines was performed with a view to assessing the profitability and attractiveness of all business segments. As a consequence, in November 2015, it was announced to pursue divestment of the bulk materials handling activities.</p> <p>As part of its activities in 2015, the Board of Directors reviewed all divisional strategies.</p>

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and longterm 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.				In connection with the health check of the company's current strategy and the divisional reorganisation, the Board of Directors reviewed and ensured that the necessary competencies and financial resources are in place and available within the company.
2.1.4. The Committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.				The Board of Directors continually evaluates the work of the Executive Group Management by specifying targets and assessing as to what level or degree such targets have been met.  As part of the Board of Directors' annual plan, the cooperation between Management and Board is evaluated once a year through a formalised dialogue between the Chairman and the Chief Executive Officer. The results of the dialogue are presented at a subsequent Board meeting.
2.1.5. The Committee <b>recommends</b> 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.				The Board of Directors continually evaluates the work of the Group Executive Management by specifying targets and assessing as to what level or degree such targets have been met.  As part of the Board of Directors' annual plan, the composition of the Group Executive Management as well as developments, risks and succession plans are discussed once a year at a Board meeting.
2.1.6. The Committee <b>recommends</b> 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.				The Board of Directors of FLSmith continuously evaluates the diversity of the Board and the Group Executive Management as well as among managers and employees, and in future recommendations and appointments diversity will deliberately be taken into account when considering the profiles and qualifications of potential candidates.  At the end of 2015, women accounted for 17% (end 2014: 17%) of the members of the Board of Directors elected at the Annual General Meeting. The Board originally set as a target that minimum 25% of the members elected at the annual general meeting in 2016 should be female. This target will not be reached.  At the end of 2015, women accounted for 13% (end 2014: 14%) of the total workforce, whilst 9.7% of all managers were female (end 2014: 10.3%). The Group target is that minimum 15% of all managers should female by 2018. When filling management vacancies externally, at least one female candidate must be in the run-up.  Due to FLSmith's global presence in over 50 countries, the total workforce naturally reflects a multitude of cultures and nationalities. The Board of Directors has set a long-term goal according to which global managers (top 100) should to a greater extent reflect the representation of nationalities among all employees and the geographical location of FLSmith's technology centres in Denmark, Germany and the USA. Today, non-Danes account for 60% (2014: 66%) of the total number of global managers (top 100), but 9% of the total number of employees (end of 2014: 9%). At the end of 2015, non-Danes accounted for 63% (end 2014: 63%) of the members of Group Executive Management.

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>2.2. Corporate social responsibility</b>				
<p>2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.</p>				<p>FLSmidth has adopted a Corporate Social Responsibility (CSR) policy with particular focus on business ethics (Code of Business Conduct), environmental issues, human resources and occupational health and safety, and it has signed the UN Global Compact and the Carbon Disclosure Initiative. The company has also launched a Responsible Supply Chain Management programme in relation to its subcontractors.</p> <p>Implementation of the CSR policy is handled by local CSR managers in the various business units and is being coordinated by a Global CSR Coordinator under guidelines issued by the latter.</p> <p>Link to CSR policy: <a href="http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies/Corporate+Social+Responsibility">http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies/Corporate+Social+Responsibility</a></p> <p>Link to HR policy: <a href="http://www.flsmidth.com/en-US/About+FLSmidth/Business+Policies/HR+Policy">http://www.flsmidth.com/en-US/About+FLSmidth/Business+Policies/HR+Policy</a></p> <p>Link to Code of Business Conduct: <a href="http://www.flsmidth.com/en-US/About+FLSmidth/Business+Policies/Code+of+Business+Conduct">http://www.flsmidth.com/en-US/About+FLSmidth/Business+Policies/Code+of+Business+Conduct</a></p> <p>Link to Health, Safety and Environmental Policy: <a href="http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies/Health+Safety+and+Environment+Policy">http://www.flsmidth.com/en-US/About+FLSmidth/Our+Company/Business+Policies/Health+Safety+and+Environment+Policy</a></p>
<b>2.3. Chairman and vice-chairman of the board of directors</b>				
<p>2.3.1. The Committee <b>recommends</b> appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.</p>				<p>Immediately after the Annual General Meeting the Board of Directors elects from its own members a Chairman and a Vice Chairman. A job and task description outlining the duties and responsibilities of the Chairman and the Vice Chairman has been drawn up. The task description is reviewed each year as part of the Board's annual plan.</p>
<p>2.3.2. The Committee <b>recommends</b> 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.</p>				<p>The Board of Directors has currently not asked the Chairman to undertake special tasks for the company. If this becomes relevant, it will take place in accordance with this recommendation and subject to further arrangement with the rest of the Board of Directors.</p>

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>3. Composition and organisation of the board of directors</b>				
<b>3.1. Composition</b>				
<p>3.1.1. The Committee <b>recommends</b> 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>				<p>To achieve a highly informed debate with the Group Executive Management, the Company strives for a Board membership profile reflecting substantial managerial experience from internationally operating industrial companies.</p> <p>At least one member of the Board must have experience as Chief Financial Officer in a major listed company, and all other members must have experience as Chief Executive Officer in a major internationally operating, preferably listed, company.</p> <p>The composition of the Board of Directors reflects that all members elected at the Annual General Meeting hold competencies in acquisition and sale of companies, financing and stock market issues, international contracts and accounting. In addition, it is preferable that the Board members have a background in construction contracting and possess technical expertise on process plants and process technology, including cement and/or minerals.</p>
<p>3.1.2. The Committee <b>recommends</b> 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>				<p>The FLSmidth Board of Directors has set up three permanent committees of which the nomination committee is one.</p> <p>The committee consists of the Board of Directors chairmanship i.e. the Chairman and Vice Chairman.</p> <p>The chairmanship is elected by the entire Board of Directors from among its members each year after the Annual General Meeting. The nomination committee meets at least three times annually.</p> <p>The responsibilities of the nomination committee are to evaluate the work of the Board of Directors, propose replacements and nominate candidates for Board membership. In carrying out these duties, the nomination committee may choose to include the compensation committee in its discussions.</p> <p>The chairmanship bases its work on a profile description of the entire FLSmidth Board, including a profile of each Board member. The profile description is decided and updated by the Board of Directors.</p> <p>To achieve a highly informed debate with the Executive Management, the Board membership profile reflects substantial managerial experience from internationally operating industrial companies. At least one member of the Board must have CFO experience from a major listed company, and all other members must have CEO experience from a major internationally operating and preferably listed company.</p> <p>The composition of the Board of Directors reflects that all members elected at the Annual General Meeting hold competencies in acquisition and sale of companies, financing and stock market issues, international contracts and accounting. In addition, it is preferable that the Board members have a background in construction contracting and possess technical expertise on the cement and/or minerals industries.</p>

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.1.3. The Committee <b>recommends</b> 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 organisational tasks, and information</li> <li>• about whether candidates to the board of directors are considered independent.</li> </ul>				<p>Information about the competencies of the individual Board members, including other executive posts, appears from the company website and the company's annual report. Notices of general meetings include references to the company website on which the information mentioned above is available.</p> <p>Information about the competencies of the individual Board members, including other managerial posts, appears from the company website and the company's annual report.</p> <p>Link: <a href="http://www.flsmidth.com/en-US/Investor+Relations/Governance/Composition+of+the+Board">http://www.flsmidth.com/en-US/Investor+Relations/Governance/Composition+of+the+Board</a></p>
<p>3.1.4. The Committee <b>recommends</b> that the company's articles of association stipulate a retirement age for members of the board of directors.</p>				<p>Pursuant to the rules of procedure of the Board of Directors, a Board member must retire at the first Annual General Meeting which is held after the member has passed the age of 70.</p> <p>Disclosure of age: Link: <a href="http://www.flsmidth.com/en-US/Investor+Relations/Governance/Composition+of+the+Board">http://www.flsmidth.com/en-US/Investor+Relations/Governance/Composition+of+the+Board</a></p>
<p>3.1.5. The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.</p>				<p>The members of the Board elected at the General Meeting retire at each Annual General Meeting. Re-election may take place.</p>
<p><b>3.2. Independence of the board of directors</b></p>				
<p>3.2.1. The Committee <b>recommends</b> that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been 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</li> <li>• board of directors,</li> <li>• represent the interests of a controlling shareholder,</li> </ul>				<p>All members of the Board elected at the Annual General Meeting, except for Mr. Torkil Bentzen, are independent as defined by the Committee on Corporate Governance, which is an independent Danish body promoting corporate governance in Danish companies. Mr. Torkil Bentzen has been a member of the Board &amp; Directors since 2002, and hence more than the 12 years-limit defined by the Committee.</p>

3.2.1. continued next page

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<ul style="list-style-type: none"> <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>				
<b>3.3. Members of the board of directors and the number of other executive functions</b>				
3.3.1. The Committee <b>recommends</b> 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.				The members of the Board are encouraged by the chairmanship to assess whether they have sufficient time available for the performance of their Board duties, both before being nominated as candidates for Board membership and while serving as Board members.
3.3.2. The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors: <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the 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</li> <li>• demanding organisational 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 recommended information appears from the company's website and the Annual Report.  Link to the terms of reference of the Board committees: <a href="http://www.flsmidth.com/en-US/investor+Relations/Governance/Board+committees">FLSmith - Board committees http://www.flsmidth.com/en-US/investor+Relations/Governance/Board+committees</a>  Information about the committee members: Link: <a href="http://www.flsmidth.com/en-US/Investor+Relations/Governance/Composition+of+the+Board">http://www.flsmidth.com/en-US/Investor+Relations/Governance/Composition+of+the+Board</a>

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>3.4. Board committees</b>				
<p>3.4.1. The Committee <b>recommends</b> 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>				<p>The recommended information appears from the company's website and the Annual Report.</p> <p>Link to the terms of reference of the Board committees: <a href="http://www.flsmidth.com/en-US/Investor+Relations/Governance/Board+committees">http://www.flsmidth.com/en-US/Investor+Relations/Governance/Board+committees</a></p> <p>Information about the committee members:</p> <p>Information about the most important activities of the committees during 2015:</p> <p><b>The nomination committee</b> The nomination committee meets at least twice a year. In 2015, the committee met four times. Its main activities in 2015 have been related to the search for new candidates to the Board of Directors.</p> <p><b>The compensation committee</b> The compensation committee meets at least three times a year, and met five times in 2015. The committee's main activities in 2015 were to consider and determine the Group Executive Management's pay and incentive plans, as well as approval of incentive plans and overall remuneration schemes for the management layer reporting to the Group Executive Management, including the development and approval of a new incentive plan from 2016 based on conditional shares, as adopted by the Annual General Meeting in March 2015.</p> <p><b>The audit committee</b> The audit committee meets at least four times per year. In 2015, the audit committee met six times and the committee's main activities were to look into specific financial, accounting and auditing matters, as well as paying special attention to the Group's capital efficiency, cost structure and level of risk - taking a more challenging market environment into account.</p> <p><b>The technology committee</b> The technology committee meets at least three times a year and met four times in 2015. The main tasks in 2015 have been to review the research and development strategy and organisation, including protection of intellectual properties, and to monitor the major development projects across the divisions.</p>
<p>3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.</p>				<p>The majority (at least half) of the members of any board committee were independent in 2015 pursuant to the definition in section 3.2.1. The Board of Directors is currently reviewing the composition of the board committees.</p> <p>All members of the Board elected at the Annual General Meeting, except for Mr. Torkil Bentzen, are independent as defined by the Committee on Corporate Governance. Mr. Torkil Bentzen has been a member of the Board &amp; Directors since 2002, and hence more than the 12 years-limit defined by the Committee on Corporate Governance.</p>



Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.4.3. The Committee <b>recommends</b> 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>				<p>The Board of Directors has established a formal audit committee consisting of Tom Knutzen (chairman), Sten Jakobsson and Vagn Sørensen.</p> <p>The Chairman of the Board of Directors, Vagn Sørensen is not chairman of the audit committee, as the audit committee is chaired by Tom Knutzen</p> <p>The three members of the audit committee (Tom Knutzen, Sten Jakobsson and Vagn Sørensen) possess considerable expertise and experience in financial, accounting and audit conditions of listed companies.</p>
<p>3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee 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>				<p>To ensure a high quality of the Group's financial reporting systems, the Board of Directors and the Executive Management have adopted policies, procedures and guidelines for presentation of the financial statements and internal control, which the subsidiaries and reporting units must adhere to, including</p> <ul style="list-style-type: none"> <li>Continuous monitoring of goals and results achieved viewed against approved budgets</li> <li>Continuous monitoring of projects including handling of risks and accounting for them</li> <li>Policies for use of IT, insurance, cash management, procurement, etc.</li> <li>Reporting instructions and manuals</li> <li>Finance manual</li> <li>Closing manual</li> </ul> <p>Responsibility for maintaining sufficient and effective internal control and risk management in connection with financial reporting lies with the Executive Group Management.</p> <p>The audit committee continuously monitors the process of financial reporting and the adequacy and effectiveness of the internal control systems established, including new accounting standards, accounting policies and accounting estimates. Besides, the audit committee monitors and checks the independence of the external auditor and monitors the planning, execution and conclusions of the external auditing.</p>
<p>3.4.5. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>annually assesses the need for an internal audit, 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>				<p>Once a year, the audit committee evaluates the need for an internal audit function.</p> <p>So far the audit committee has seen no need for an actual internal audit function because the internal policies, procedures, guidelines and control actions in place are considered to function well and considered embedded in the Executive Management and the company's Group Control and Project Control functions.</p>

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>3.4.6. The Committee <b>recommends</b> 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>				<p>The nomination committee consists of the Chairman and the Vice Chairman of the Board of Directors. The nomination committee is elected each year by the entire Board at the initial Board meeting following the Annual General Meeting. The responsibilities of the nomination committee are to continuously evaluate the work and composition of the Board and initiate any changes and suggest new candidates for Board membership.</p> <p>In carrying out these duties, the nomination committee may choose to involve the compensation committee.</p> <p>The nomination committee meets at least twice annually.</p>
<p>3.4.7. The Committee <b>recommends</b> 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>				<p>The compensation committee consists of up to four Board members, currently Mr Vagn O. Sørensen and Mr Torkil Bentzen.</p> <p>The compensation committee is elected each year by the entire Board at the initial Board meeting following the Annual General Meeting. The committee meets minimum three times every year.</p> <p>The purpose of the compensation committee is to determine the salary and other terms of employment for members of the Group Executive Management. Besides, once a year the compensation committee approves the overall principles of the Group's bonus and other short- or long-term incentive or retention plans. The compensation committee also submits proposals to the Board for the size of the compensation of the Board and the Board committees.</p> <p>Once every year the Chief Executive Officer and the rest of the Executive Management must inform the compensation committee about pay levels and performance evaluation for the Group Executive Management and managers reporting directly to the Group Executive Management.</p>

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.				If the compensation committee should use external advisers, it is ensured that not the same external advisers are used as those used by the Executive Management.
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>				
3.5.1. The Committee <b>recommends</b> 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.				As part of its annual plan, the Board of Directors performs an annual self-evaluation to evaluate the contribution, engagement and competencies of its individual members. The Chairman is responsible for the evaluation which is conducted by an external provider. The result of the questionnaire is discussed at a subsequent Board meeting and the individual comments submitted are used in the planning and handling of future Board meetings.
3.5.2. The Committee <b>recommends</b> 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.				Board members elected at the General Meeting constitute not less than five and not more than eight members, currently six members, in order to maintain a small, competent and quorate Board.
3.5.3. The Committee <b>recommends</b> 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.				The Board of Directors continually evaluates the work of the Executive Group Management by specifying targets and assessing as to what level or degree such targets have been met.
3.5.4. The Committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer and that the outcome of the evaluation be presented to the board of directors.				As part of the Board of Directors' yearly plan the cooperation between Management and Board is evaluated once a year through a formalised dialogue between the Chairman and the CEO. The results of the dialogue are presented at a subsequent Board meeting.

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation										
<b>4. Remuneration of management</b>														
<b>4.1. Form and content of the remuneration policy</b>														
<p>4.1.1. The Committee <b>recommends</b> 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>				<p>The Board of Directors has adopted a policy for remuneration of the Board and the Executive Management.</p> <p>Link to guidelines for incentive pay: <a href="http://www.flsmidth.com/en-US/Investor+Relations/Governance/Guidelines+for+Incentive+Pay">http://www.flsmidth.com/en-US/Investor+Relations/Governance/Guidelines+for+Incentive+Pay</a></p> <p>The incentive-based portion of the Executive Management's remuneration is presented at the company's Annual General Meeting pursuant to Section 139 of the Danish Companies Act, and the disclosure of it appears from the company's articles of association.</p> <p>The Board of Directors has set up a compensation committee which continuously assesses the Management's compensation.</p> <p>The Board of Directors' total remuneration consists of an annual cash payment for the current financial year which is submitted for approval at the Annual General Meeting. The cash payment currently consists of a basic fee of DKK 400,000 to each Board member, which is graded in line with additional tasks and responsibilities:</p> <table border="1" data-bbox="882 1111 1471 1317"> <tbody> <tr> <td>a. Ordinary Board members</td> <td>100% of the basic fee</td> </tr> <tr> <td>b. Board Vice Chairman</td> <td>200% of the basic fee</td> </tr> <tr> <td>c. Board Chairman</td> <td>300% of the basic fee</td> </tr> <tr> <td>d. Committee Chairman</td> <td>+50% of the basic fee</td> </tr> <tr> <td>e. Committee members</td> <td>+25% of the basic fee</td> </tr> </tbody> </table>	a. Ordinary Board members	100% of the basic fee	b. Board Vice Chairman	200% of the basic fee	c. Board Chairman	300% of the basic fee	d. Committee Chairman	+50% of the basic fee	e. Committee members	+25% of the basic fee
a. Ordinary Board members	100% of the basic fee													
b. Board Vice Chairman	200% of the basic fee													
c. Board Chairman	300% of the basic fee													
d. Committee Chairman	+50% of the basic fee													
e. Committee members	+25% of the basic fee													
<p>4.1.2. The Committee <b>recommends</b> that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>• limits be set on the variable components of the total remuneration package,</li> <li>• a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,</li> <li>• there be clarity about performance criteria and measurability for 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>				<p>It is the opinion of the Board of Directors that a combination of a fixed and incentive-based remuneration to the Group Executive Management helps to ensure that the Company can attract and retain key persons whilst incentive-based remuneration also encourages the Group Executive Management to create value to the benefit of the shareholders.</p> <p>The total remuneration of the executive management consists of the following components:</p> <ul style="list-style-type: none"> <li>• fixed salary ("gross salary") including pension</li> <li>• usual accessory benefits such as car, telephone, newspaper, etc.</li> <li>• cash bonus</li> <li>• share options (to be phased out from end 2015) or performance shares (from beginning of 2016)</li> </ul> <p>Each member of the Group Executive Management may receive a yearly bonus which may not exceed 40 % of the relevant member's Gross Salary, including pension, for the year in question. The purpose of such cash bonus is to ensure fulfillment of the company's short-term targets.</p> <p>The payment and size of the bonus will therefore depend on the fulfillment of the targets that are agreed upon for one year at a time. The targets are primarily related to the fulfillment of financial KPIs, including with regard to the Company's budgeted results, achievement of financial ratios or other measurable financial targets. In addition, other operational and/or personal KPIs may apply.</p>										

4.1.2. continued next page

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
				<p>For all targets, a minimum performance requirement has to be achieved to get above the threshold for payment of bonus. And full payment will require a performance above the set target performance ("stretched targets"). In addition to the fulfillment of the yearly KPIs and to further ensure the right balance between the financial performance of the Company and the cash bonus payouts, payment of bonus may be conditional upon the Company achieving at least one further financial threshold. In the current bonus program this general financial threshold is defined as realising a positive cash flow (CFFO) on group level for the financial year in question. However, this general financial threshold may be changed and/or supplemented by other KPIs in the future taking into consideration the best interests of the Company.</p> <p>Until the end of 2015, members of the Group Executive Management may have been granted share options up to a maximum net present value at the grant date commensurate with 25% of the Gross Salary, including pension, for the individual concerned at the grant date. The net present value at the grant date is calculated by way of the Black &amp; Scholes method. The options are exercisable three (3) years after being granted and lapse if they have not been exercised six years after the grant date.</p> <p>The exercise price of the options must not be less than the market price of the company's shares at – or immediately prior to – the time of granting. Since 2014 a hurdle rate of 10% has been applied by the Board of Directors. The strike price for the share options will be adjusted for dividend paid out.</p> <p>With effect from 2016, a performance based share program will replace the share option program. This means that members of the Group Executive Management may be granted performance shares. The purpose of such performance shares is to ensure value creation for the shareholders by aligning the long-term incentive awards with the performance of the management in terms of the fulfillment of the Company's long-term targets. Subject to the Board of Directors' approval, the granting of performance shares may take place once a year, normally on presenting the Company's Annual report in February. For each year, performance shares may be granted up to a value corresponding to 30% of the relevant member's Gross Salary, including pension, at the grant date. The vesting of the performance shares will be dependent on (i) time (a three (3) year vesting period), (ii) continued employment, and (iii) financial performance, i.e. achievement of one or more of the announced long-term financial targets supporting the long-term group strategy. The long-term financial target(s) are laid down by the Board of Directors. Full vesting of the performance shares will require fulfilment of a stretched target (i.e. performance above the set target performance) for the applicable long-term financial target(s). If the minimum threshold for financial performance is not met, there will be no vesting of performance shares. The shares are delivered to the individual in question without payment, subject to continued employment and achievement of the long-term financial target(s), following the vesting period of three (3) years. No shares are thus delivered during the vesting period, and all shareholder rights and obligations stay with the Company during the vesting period. The Company will continuously cover its obligations under the performance share program through acquisition of treasury shares.</p>

4.1.2. continued next page

## The report concerns the financial year 2015

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
				Remuneration agreements for the Executive Management include a right for the company to demand full or partial repayment of variable pay components, which have been paid out based on information that is subsequently proved to be incorrect.
4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options.				The Board of Directors' total remuneration consists of an annual cash payment which is recommended by the Board and adopted by the Annual General Meeting.
4.1.4. The Committee <b>recommends</b> 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.				Share-based remuneration is granted periodically and has a maturity of at least three years from the date of allocation. For further details, please see 4.1.2.
4.1.5. The Committee <b>recommends</b> that agreements on termination payments should not amount to more than two years' annual remuneration.				Agreements regarding severance allowance shall not exceed two years' annual remuneration.
<b>4.2. Disclosure of the remuneration policy</b>				
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.				The Chairman's statement at the Annual General Meeting includes information on the company's compliance with the general guidelines for incentive pay.
4.2.2. The Committee <b>recommends</b> that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.				A proposal for remuneration of the Board of Directors for the current financial year is submitted for approval at the Annual General Meeting.
4.2.3. The Committee <b>recommends</b> 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.				The company discloses the total remuneration granted to each member of the board of directors by the company as well as the total remuneration of the Group CEO. However, the remuneration of the rest of the Group Executive Management is stated as one aggregate sum. In the Board's opinion, shareholders have a right to know the Group CEO's pay, whilst the remuneration of each of the other members of the Group Executive Management is less relevant to shareholders.

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>5. Financial reporting, risk management and audits</b>				
<b>5.1. Identification of risks and transparency about other relevant information</b>				
5.1.1. The Committee <b>recommends</b> that the board of directors 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.				The Board of Directors accounts for strategic, financial and business-related risks and risk management in a special chapter in the Annual Report.
<b>5.2. Whistleblower scheme</b>				
5.2.1. The Committee <b>recommends</b> that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.				As part of the company's Code of Business Conduct, employees and other persons have been given the opportunity to report confidentially violations or suspicion of violations to the Group General Counsel and/or the Head of the Global Governance and Compliance department and/or an external whistleblower hotline. Any reporting, whether received anonymously or from a known source, is treated confidentially and is initially investigated internally by the Group General Counsel or one of her legal staff who is authorised to do so. Sanctions in case of any confirmed violations are decided by the Group Chief Executive Officer based on a recommendation by the Group General Counsel and/or to the Group Executive Vice President, Human Resources. In the case of the Executive Management, recommendation shall be given to the Chairman of the Board of Directors.
<b>5.3. Contact to auditor</b>				
5.3.1. The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor 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.				The Board Chairman and Audit Committee Chairman keep regular contact with the company auditor. The Board of Directors, including the Audit Committee meets at least once a year with the auditor without the executive board present.
5.3.2. The Committee <b>recommends</b> 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.				The audit agreement and auditors' fee is agreed between the Board of Directors and the auditor based on a recommendation from the audit committee.

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