

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

RECOMMENDATION

1.1. It is **recommended** that the board of trustees adopt guidelines for external communication, including who can make public statements on behalf of the foundation and on what matters. The guidelines should address the need for transparency and stakeholders' needs and possibilities to obtain relevant up-to-date information about the circumstances of the foundation.

2.1.1. It is **recommended** that, in order to secure the activities of the commercial foundation in accordance with the purposes and interests of the foundation, at least once a year the board of trustees take a position on the overall strategy and distribution policy of the foundation on the basis of the articles of association.

2.2.1. It is **recommended** that the chairman of the board of trustees organize, convene and chair meetings of the board of trustees in order to ensure effective board work and to establish the best conditions for the work of the board members individually and collectively.

HISTORIC VERSION 2016 - The contents of this document is part of the management review from the LEO Foundation's annual report 2016 (published 30 March 2017).

COMPLIANCE

The LEO Foundation is in compliance with this recommendation.

As a general rule, the foundation's CEO represents and speaks on behalf of the foundation in all external communication on matters concerning the foundation and its activities. Up until the appointment of a CEO, 1 April 2017, such communication was handled by the chairman of the board of trustees.

In the daily communication with grant applicants and recipients, the foundation is usually represented by its secretariat and specifically appointed project managers.

The LEO Foundation is in compliance with this recommendation.

Besides discussing and deciding upon the overall strategic direction and the grant policy of the foundation at an annual strategy seminar, the board of trustees is constantly focused on the best possible implementation of such strategic decisions and the need for any adjustments along the way.

The LEO Foundation is in compliance with this recommendation.

The chairman plays an active role in organizing and setting the agenda of the board meetings and, furthermore, keeps the board of trustees updated in between meetings on matters of importance for the foundation.

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2.2.2. It is **recommended** that if, in addition to the position as chairman, in exceptional circumstances, the chairman of the board of trustees is requested to perform specific operating functions for the commercial foundation, a board resolution be passed which ensures that the board of trustees retains its independent, overall management and control function. Appropriate allocation of responsibilities should be ensured between the chairman, the vice-chairman, the other members of the board of trustees and the executive board, if any.

2.3.1. It is **recommended** that the board of trustees regularly assess and stipulate the competencies that the board of trustees is to possess in order to perform the tasks incumbent upon the board of trustees as well as possible.

2.3.2. It is **recommended** that, with due respect of any right in the articles of association to make appointments, the board of trustees ensure a structured, thorough and transparent process for selection and nomination of candidates for the board of trustees.

The LEO Foundation is in compliance with this recommendation.

Up until the appointment of a CEO, 1 April 2017, the chairman undertook a number of management responsibilities, operating functions and coordination efforts, as needed. The responsibility for preparing major projects or decisions to be considered by the board of trustees were carefully coordinated between the chairman, the vice chairman and the other board members in order to ensure and uphold the overall management and control function of the board of trustees.

The LEO Foundation is in compliance with this recommendation.

The board conducts triennial in-depth board evaluations with the assistance of external facilitators mapping the existing competencies within the board and highlighting any areas where the board will need to strengthen its capacities.

The LEO Foundation is in compliance with this recommendation.

The chairman and the vice chairman identify new candidates for the board of trustees. Such new candidates are being nominated to the board of directors through an open and transparent process and in accordance with written procedures and established criteria concerning eligibility and independence.

No members of the board of trustees are nominated or elected by any

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2.3.3. It is **recommended** that members of the board of trustees be appointed on the basis of their personal qualities and competencies, taking into account the collective competencies of the board and, when composing and nominating new members of the board, the need for introducing new talent be weighed against the need for continuity and the need for diversity be considered in relation to commercial and grant experience, age and gender.

2.3.4. It is **recommended** that, in the management review in the annual report and on the commercial foundation's website, there be an account of the composition of the board of trustees, including its diversity, and that the following information be provided on each board member:

- the name and position of the member;
- the age and gender of the member;
- date of original appointment to the board, whether the member has been re-elected, and expiry of the current election period;
- any special competences possessed by the member;
- other managerial positions held by the member, including positions on executive boards, boards of directors and supervisory boards and board committees in Danish and foreign foundations, enterprises and institutions, as well as other demanding organization tasks;
- whether the member has been appointed by authorities/providers of

public authorities, organisations or other third parties.

The LEO Foundation is in compliance with this recommendation.

The professional competencies, skills and experience, as well as the personal qualities, of prospective members of the board of trustees play a pivotal role in connection with election (and re-election) of board members. Likewise, the board of trustees seeks to strike an appropriate balance between continuity and new inspiration on the board, as well as in relation to age and gender spread among the board members.

The LEO Foundation is in compliance with this recommendation.

The information can be found on the Foundation's website.

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grants etc.; and

- whether the member is considered independent.

2.3.5. It is **recommended** that the majority of the members of the board of trustees of the commercial foundation not also be members of the board of directors or executive board of the foundation's subsidiary or subsidiaries, unless it is a fully owned actual holding company.

2.4.1. It is **recommended** that an appropriate proportion of the board of trustees be independent.

If the board of trustees (excluding employee-elected members) is composed of up to four members, at least one member should be independent. If the board of trustees is composed of between five and eight members, at least two members should be independent. If the board of trustees is composed of nine to eleven members, at least three members should be independent, and so on.

To be considered independent, this person may not:

- be or within the past three years have been a member of the executive board or senior employee in the foundation or a subsidiary or associated company to the foundation;
- within the past five years have received larger emoluments, including distributions or other benefits from the foundation/group or a subsidiary or associated company to the foundation in another

The LEO Foundation is in compliance with this recommendation.

Two out of seven members of the board of trustees (excluding employee-elected members) are also members of the board of directors of LEO Pharma A/S.

The LEO Foundation is in compliance with this recommendation.

As of 31 March 2017, four out of seven members of the board of trustees (excluding employee-elected members) are independent. Up until then, two out of seven were independent.

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capacity than as a member of the board of directors or executive board of the foundation;

- within the past year have had a significant business relationship (e.g. personal or indirectly as a partner or employee, shareholder, customer, supplier or member of the executive management of companies with corresponding connection) with the foundation/group or a subsidiary or associated company of the foundation;
- be or within the past three years have been employed or have been a partner of the external auditor;
- have been a member of the board of trustees or executive board of the foundation for more than 12 years;
- be close relatives with persons who are not considered as independent;
- be the founder or a significant donor if the purpose of the foundation is to grant support to this person's family or others who are especially close to this person; or
- be a member of the management of an organization, another foundation or similar which receives or repeatedly within the past five years has received significant donations from the foundation.

2.5.1. It is **recommended** that members of the board of trustees be

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appointed for a minimum period of two years and a maximum period of four years.

2.5.2. It is **recommended** that an age limit for members of the board of trustees be set which is published in the management review or on the foundation's website.

2.6.1. It is **recommended** that the board of trustees establish an evaluation procedure in which the board of trustees, the chairman and the contributions and performance of individual members are evaluated annually and the result is discussed by the board of trustees.

2.6.2. It is **recommended** that once a year the board of trustees evaluate the work and performance of the executive board and/or the administrator (where relevant) in accordance with predefined clear criteria.

The election period for members of the board of trustees elected under the articles of association (charter) of the foundation is two years. By law, the election period for employee-elected members is four years.

The LEO Foundation is in compliance with this recommendation.

According to the articles of association (charter) of the foundation, the limit for membership is set at the age of 70 years.

The LEO Foundation is in compliance with this recommendation.

The board has established an annual performance review programme evaluating the performance of each individual trustee and the board as a whole. The results are discussed in the board and appropriate action taken where needed.

The LEO Foundation is in compliance with this recommendation.

As of 1 April 2017, the foundation has appointed a CEO. The administrator and the CEO's performance will be evaluated on a yearly basis by the board of trustees.

Up until 1 April 2017, no executive board had been appointed for which reason there was no work and collaboration to evaluate in this regard. The work of and the collaboration with the administrator was evaluated on an on-going basis by the board of trustees on the basis of the

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3.1. It is **recommended** that the members of the board of trustees of commercial foundations be remunerated with a fixed remuneration and that members of a possible executive board be remunerated with a fixed remuneration, possibly combined with a bonus which should not be dependent upon accounting results. The remuneration should reflect the work and responsibilities consequential to the position.

3.2. It is **recommended** that the annual report provide information about the full remuneration received by each member of the board of trustees and executive board (if relevant) from the commercial foundation and

underlying service level agreement. Further, regular meetings were held between the chairmanship and the administrator to follow up on performance.

The LEO Foundation is in compliance with this recommendation.

Each member of the board of directors as well as the CEO receives a fixed annual fee at a reasonable and customary level and is not entitled to any bonus or other type of incentive payments.

Board remuneration 2017:

Board member, DKK 300,000

Vice Chairman, DKK 600,000

Chairman, DKK 900,000

Additional remuneration for Board Committees:

Committee member*, DKK 50,000

Committee chairman*, DKK 100,000

*The chairman and vice chairman of the Board of Trustees do not receive any additional remuneration for work in Board Committees.

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from other enterprises in the group. Furthermore, there should be information on any other remuneration which members of the board of trustees, except for employee representatives, have received for performing tasks for the foundation, subsidiaries of the foundation or enterprises in the same group as the foundation.