

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

RECOMMENDATION

1.1. It is **recommended** that the board of directors adopt principles for external communication that 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, the board of directors should, at least once a year, take a position on the overall strategy and distribution policy of the foundation on the basis of the articles of association.

2.1.2. It is **recommended** that the board of directors regularly address whether the foundation's asset management is in line with the purpose of the foundation and its long- and short-term needs.

HISTORIC VERSION 2020 - The contents of this document is part of the management review from the LEO Foundation's annual report 2020 (published 24 March 2021).

COMPLIANCE

The LEO Foundation is in compliance with this recommendation.

The board has adopted a communication policy that sets out the principles for the foundation's external communication activities.

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

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 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 board reviews the Foundation's investment strategy and policy annually and conducts regular reviews of the Foundation's main risks (incl. the aggregate risk profile of its investment portfolio). This is done to ensure that the asset management and risk profile matches the Foundation's purpose, needs, and obligations.

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

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

2.2.2. It is **recommended** that if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special activities for the commercial foundation which extend beyond the duties of chairman, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, general management and control function. Appropriate allocation of responsibilities should be ensured between the chairman, the vice-chairman, the other members of the board of directors and the executive board, if any.

2.3.1. It is **recommended** that the board of directors regularly, and at least every second year, assess and stipulate the competences that the board of directors needs to possess in order to best perform the tasks incumbent upon the board of directors.

2.3.2. It is **recommended** that, with due respect of any right in the articles of association to make appointments, the board of directors

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 updated in between meetings on matters of importance for the foundation.

The LEO Foundation is in compliance with this recommendation.

The chairman does not perform any operating functions. All operations are carried out by the LEO Foundation's organisation consisting of a CEO and a small team of specialists.

The LEO Foundation is in compliance with this recommendation.

The board conducts annual board evaluations, including assessment of the board's competence profile. Every third year, an in-depth mapping the existing competencies within the board is made with the assistance of external facilitators, highlighting any areas where the board will need to strengthen its capacities.

The LEO Foundation is in compliance with this recommendation.

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

approves a structured, thorough and transparent process for selection and nomination of candidates for the board of directors.

2.3.3. It is **recommended** that members of the board of directors are appointed on the basis of their personal qualities and competences, taking into account the collective competences of the board, and that when composing and nominating new members to the board, the need for introducing new talent is weighed against the need for continuity and the need for diversity in relation to, inter alia, commercial and grants experience, age and gender.

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

When new appointments are needed, the board establishes an ad hoc nomination committee to identify new candidates for the board. Based on the work in the committee, candidates are presented to the full board for discussion and approval. All candidates are selected through an open and transparent process and in accordance with written procedures and established criteria concerning eligibility and independence.

No members of the board are nominated or elected by any 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 play a pivotal role in connection with election (and re-election) of board members. Likewise, the board 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.

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

- 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 owns shares, options, warrants and similar in the foundation's subsidiaries and/or associated companies,
- whether the member has been appointed by authorities/providers of 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 directors of the commercial foundation are not also members of the board of directors or executive board of the foundation's subsidiary(ies), unless it is a fully-owned actual holding company.

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

The LEO Foundation is in compliance with this recommendation.

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

All members of the board are also members of the board of directors of the LEO Foundation's fully owned actual holding company, LEO Holding A/S.

The LEO Foundation is in compliance with this recommendation.

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

If the board of directors (excluding employee representatives) is composed of

- up to four members, at least one member should be independent,
- between five and eight members, at least two members should be independent, or
- nine to eleven members, at least three members should be independent, and so on.

To be considered independent, this person may not, for example:

- 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 other 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,

Six out of seven members of the board (excluding employee representatives) are independent.

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

- be or within the past three years have been employed or partner at the external auditor,
- have been a member of the board of directors or executive board of the foundation for more than 12 years,
- be a close relative or in another way be very close to 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 directors be 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 directors be set, which is published in the management commentary or on the foundation's website.

The LEO Foundation is in compliance with this recommendation.

The election period for members of the board 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.

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

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

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

3.1.1. It is **recommended** that the members of the board of directors of commercial foundations be remunerated with a fixed remuneration and that members of a potential 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.

The LEO Foundation is in compliance with this recommendation.

The board has established an annual performance review programme evaluating the performance of each individual board member 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.

The foundation's CEO's performance is evaluated on a yearly basis by the board.

The LEO Foundation is in compliance with this recommendation.

Each member of the board 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 2021:

Board member, DKK 150,000

Vice Chairman, DKK 300,000

Chairman, DKK 450,000

Additional remuneration for Board Committees:

GOVERNANCE

RECOMMENDATIONS ON FOUNDATION GOVERNANCE

Committee member*, DKK 60,000

Committee chairman*, DKK 120,000

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

The Chairman is entitled to free usage of telephone, computer, internet and newspaper subscription.

3.1.2. It is **recommended** that the financial statements provide information about the full remuneration received by each member of the board of directors and any executive board from the commercial foundation and from the foundation's subsidiaries and associated companies. Furthermore, there should be information on any other remuneration which members of the board of directors and an executive board, if any, have received for performing other work or tasks for the foundation, the foundation's subsidiaries or associated companies, except for the remuneration of employee representatives as employees.

The LEO Foundation is in compliance with this recommendation.