



# Statutory Report on Corporate Governance 2018

under Section 107b of the Danish Financial Statements Act

ENGINEERING  
TOMORROW



# Contents

---

## Corporate Governance

---

Statutory Report on Corporate Governance 2018	3
Composition of management functions and committees	4
Statement of internal control and risk management systems in the financial reporting process	6
Corporate governance recommendations	8

---

Danfoss' statutory report on corporate governance forms part of the management's review provided in Danfoss' Annual Report 2018, covering the accounting period of January 1- December 31, 2018.

---

# Statutory Report on Corporate Governance 2018

under Section 107b of the Danish Financial  
Statements Act

---

This Statutory Report on Corporate Governance represents Danfoss' compliance with Section 107b of the Danish Financial Statements Act. According to this, listed companies are required to disclose whether they are covered by a code on corporate governance (subsections 1-5). As part of their financial reporting, they are also required to describe the main elements of their internal risk management and controls systems (subsection 6) as well as the composition of their management functions and committees (subsection 7).

In November 2014, Danfoss filed a Euro Medium Term Program on the Irish Stock Exchange and is therefore, as of that date, considered a class D company with listed bonds. For that reason, Danfoss has to comply with the rules set out in section 107b, section 1, no. 1-5, of the Danish Financial Statements Act applying to companies with listed bonds, including the exceptions regarding issuers of bonds above EUR 100,000.

As its code of corporate governance, Danfoss follows the recommendations on corporate governance as set out by the Committee on Corporate Governance in Denmark. With a few exceptions, Danfoss complies with these recommendations, which are available on: [www.corporategovernance.dk](http://www.corporategovernance.dk), which is the website of the Committee on Corporate Governance. A detailed description is available at page 9.

Information about the composition of the company's management bodies and the company's control and risk management systems is covered by the independent auditors' report provided in Danfoss' Annual Report 2018.

## Composition of management functions and committees

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The management bodies are described below.

### Annual General Meetings

The Annual General Meeting is the supreme authority in all company matters. General meetings are called by the Board of Directors at no less than two weeks and not more than four weeks' notice by an announcement inserted in a national newspaper as determined by the Board of Directors and by ordinary letter or e-mail to all registered shareholders having so requested. All shareholders are entitled to attend general meetings, upon specific conditions.

### The Board of Directors

The Board of Directors approves the overall strategies and targets of Danfoss, appoints and supervises the CEO and CFO, and defines the guidelines for the CEO and CFO on the day-to-day operation of Danfoss. Having the overall responsibility for the company's activities, it is important that Danfoss has a dynamic and professional Board of Directors, whose members possess

Composition of the Board of Directors <sup>1)</sup>	Nationality	Independent	Audit Committee
Jørgen Mads Clausen (Chairman)	DK	No	●
Björn Klas Otto Rosengren (Vice-Chairman)	SE	Yes	●
Mads-Peter Clausen	DK	No	●
Per Falholt	DK	Yes	●
Connie Hedegaard	DK	Yes	●
William Ervin Hoover Jr.	US	Yes	●
Dr. Jürgen Reinert	DE	Yes	●
Mika Vehviläinen	FIN	Yes	●
Sandra Nørgaard Bertelsen <sup>2)</sup>	DK	-	●
Marianne Godballe <sup>2)</sup>	DK	-	●
Lars Grau <sup>2)</sup>	DK	-	●
Jens Peter Rosendahl Nielsen <sup>2)</sup>	DK	-	●

<sup>1)</sup> From the Annual General Meeting held in April 2018 to the 2019 Annual General Meeting

<sup>2)</sup> Elected by the employees

● Chairman of the Audit Committee

the knowledge and experience necessary to ensure the Group's long-term performance. The members of the Board of Directors are presented in the Annual Report and on the Group's website: [www.danfoss.com](http://www.danfoss.com).

The Board of Directors consists of eight shareholder-elected and four employee-elected members. The shareholder-elected members are elected at a general meeting for the term until the following year's Annual General Meeting (AGM) to the effect that all shareholder-elected members may stand for re-election at each AGM. When searching for new members, the Board of Directors considers a candidate's qualifications relative to how they match the company's needs and the combined qualifications and general composition of the Board overall.

Pursuant to the Danish Companies Act, employees in Denmark are entitled to elect a number of members and alternates to the

Board, corresponding to half the number of shareholder-elected board members. Danfoss' four employee representatives have the same rights, obligations and responsibilities as the shareholder-elected board members, and they serve on the Board of Directors for terms of four years and may stand for re-election. The most recent election of employee representatives was held in a secret ballot in 2018. The election took effect as of the AGM held in April 2018. If an employee representative ceases to be employed by Danfoss, he or she must resign from the Board.

The Board of Directors appoints a chairman and one or two vice-chairmen from among its members. All appointments are for terms of one year. At least five Board meetings are held each year, one of which is held in connection with a visit to one of the Group's sites. Matters discussed at Board meetings are decided by a simple majority of votes, and in the event of an equality of votes, the Chairman has the casting vote.

The CEO and CFO normally attend the meetings of the Board of Directors, unless the Board of Directors is reviewing matters pertaining to the CEO and CFO. The distribution of tasks between the Board of Directors and the CEO and CFO is set out in the rules of procedure, which are reviewed on an ongoing basis.

### Audit Committee

In Danfoss, the entire Board of Directors performs the function of the audit committee. In connection with Board meetings, the Board of Directors also holds Audit Committee meetings four times a year.

The main objectives of the Audit Committee are to:

- Monitor the financial reporting process (reliable reporting)
- Supervise the efficiency of the company's internal control system and risk management systems
- Monitor the statutory audit of the financial statements, etc.
- Monitor and verify the auditors' independence, cf. Section 24 of the Danish Act on State-authorized and Registered Public Accountants, including, in particular, the provision of additional services to the company
- Monitor the external auditors' competencies and findings
- Make recommendations to the Board regarding the appointment of auditors.

### Internal audit

Danfoss has decided to set up an internal audit function to carry out independent internal compliance checks. The internal audit function submits its findings to the Audit Committee on a quarterly basis, and to the Group Executive Team (GET) on a monthly basis.

### CEO and CFO

The company's CEO and CFO are the company's registered officers and signatories with the Danish Business Authority. They are appointed by the Board of Directors and are accountable for the management of the Danfoss Group towards the Board of Directors. The CEO and CFO have the overall responsibility for the day-to-day operations of the company and delegates areas of responsibility and decision-making powers to the company's business segments and corporate functions in accordance with guidelines and legislation.

According to the rules of procedure, the CEO and CFO are responsible for the Group related governance activities, such as Board of Directors meetings, business reviews, legal matters and other formal governance topics.

### Group Executive Team

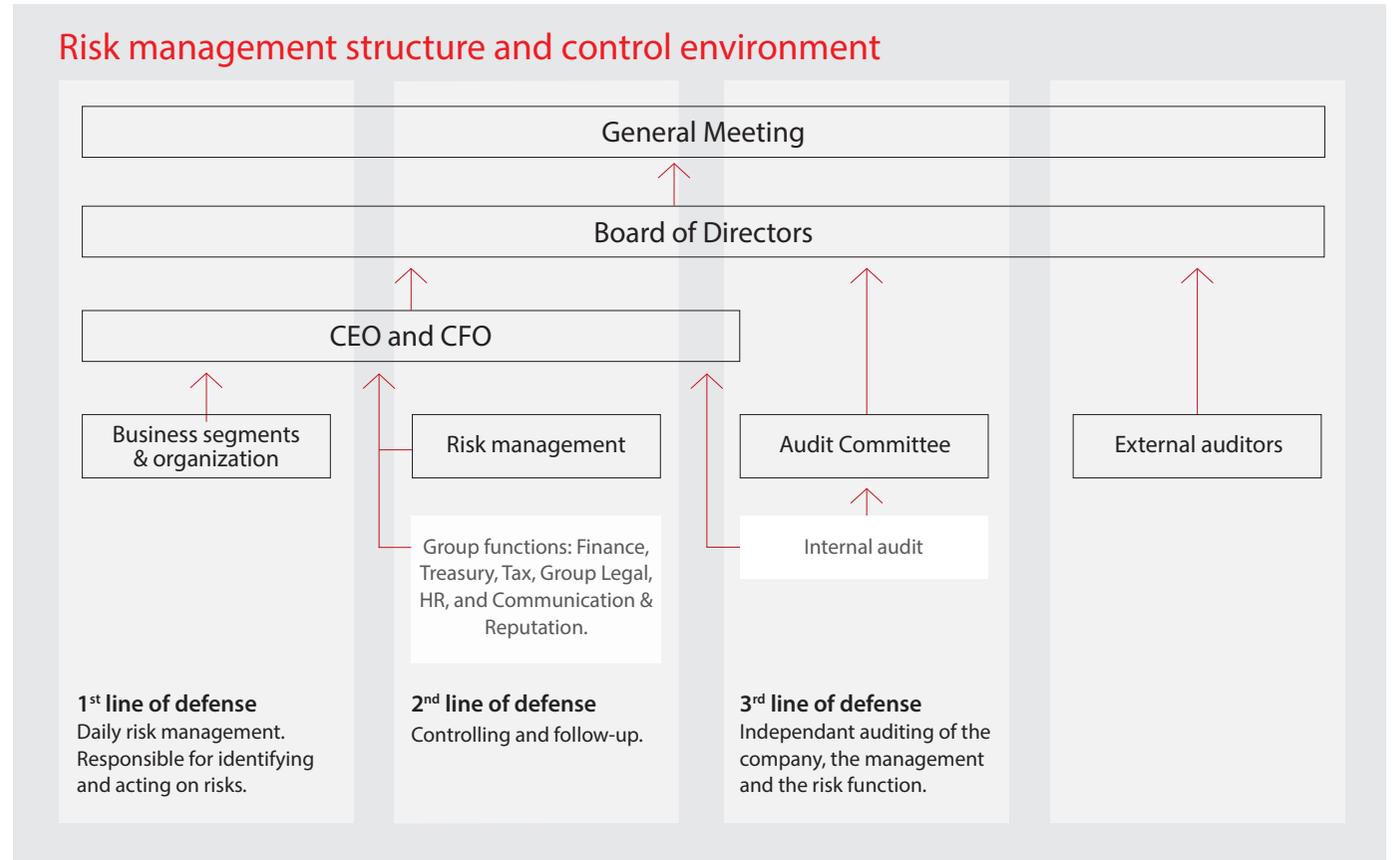
The Group Executive Team (GET) is Danfoss' top management team and consists of the CEO, CFO and the Presidents of the four business segments. The members of GET are presented in the Annual Report and on the Group's website: [www.danfoss.com](http://www.danfoss.com). The GET holds formal meetings regularly. The GET focuses on strong ownership and execution of the company's strategy and performance management, and it handles the day-to-day responsibility for the Group's operations.

# Statement of internal control and risk management systems in the financial reporting process

The Board of Directors, together with the Group Executive Team, have the overall responsibility for the Group's risk management and internal controls in the financial reporting. This includes compliance with all relevant legislation and regulations. Corporate governance in Danfoss is based on Danish law and the company's Articles of Association, corporate values and a large number of internal management and control procedures and processes.

The Board of Directors and the CEO and CFO establish and approve the overall policies, procedures and controls in relation to significant parts in the financial reporting process, including IT, tax matters and accounting estimates. The CEO and CFO oversee that relevant legislation and other instructions and provisions applicable to financial reporting are complied with and reports accordingly on an ongoing basis to the Audit Committee. Enforcement of the policies and procedures is based on clear principles for delegation of responsibility, including clear reporting structures, authorization and validation procedures. These policies and procedures are mandatory for all Danfoss entities, areas and functions worldwide.

Danfoss' consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and Danish disclosure requirements as set out in the Danish



Financial Statements Act. Danfoss has set up internal control and risk management systems to ensure that its financial reporting complies with the above-mentioned rules, containing following categories:

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

## Control environment

The most significant policies and procedures related to financial reporting include: Accounting and Controls Manual (containing accounting policies, methods and requirements on key internal controls), the Treasury Manual, the Tax policy, the IT security policy and the Ethics Handbook.

The purpose of the control activities is to prevent, detect and correct any errors or irregularities, as well as ensuring that applied estimates are reasonable under the circumstances. In order to ensure efficient controls, Danfoss applies three lines of defense, as shown in the overview.

## Risk assessment

A description of general risk management at Danfoss is provided in Danfoss' Annual Report 2018, in the section on Risk Management and Compliance. Note 26 "Critical accounting estimates" in the annual report sets out the areas which pose the most significant risks of misjudgment.

On an ongoing basis, the CEO and CFO and the Audit Committee evaluate the risks considered to have a potential impact on the Group's financial reporting. Quarterly, such evaluations are performed during the business review meetings between the CEO and CFO and each segment. The risks are treated according to their potential impact and likelihood. At least once a year, the CEO and CFO and the Audit Committee perform a general assessment of the risks related to the financial reporting, including the risk of fraud, mitigating measures, as well as assessment of management override.

## Control structure

Danfoss' Corporate Standards describe the requirements that apply to the accounting systems. Those standards are revised and improved as and when considered necessary.

The company's subsidiaries report financial information for use in the annual report and in interim announcements in a shared reporting environment. The reporting by the subsidiaries is checked on an ongoing basis, and procedures have been set up to ensure that any errors or inadequacies in the data reported are communicated to and corrected by the subsidiaries timely. Danfoss' standards related to accounting and controls have been prepared in order to enable uniform and reliable reporting, which uphold the quality of the Group's financial statements. Corporate Finance supervises and verify to ensure that the reports comply with these corporate standards. Furthermore, the internal audit function performs random assessments on the reporting as well as on the controlling process to minimize the risk of fraud and misreporting.

## Information and communication

Danfoss' corporate standards, policies and procedures are available for all employees on the Group's intranet. Specific finance policies, guidelines and instructions can be found on the Corporate Finance intranet site. All changes to legislation

and regulations are communicated regularly and timely to all reporting responsible by using several means of communication, such as email, internal newsletter and internal social media.

## Monitoring

The segments monitor the transactions from a business perspective, whereas the corporate functions monitor the transactions from a legal perspective. Danfoss' Corporate Finance function performs a series of controls over the subsidiaries' financial reporting, in regard to finance and tax reporting matters.

On a monthly basis, Corporate Finance reports on issues identified in the most recent monthly reporting. Additionally, the Internal Audit function performs a series of audit visits to selected subsidiaries in order to verify compliance with Danfoss' standards, policies, procedures, internal controls, including IT general controls. Monthly, the audit issues identified are reported to the GET.

Tax- and duty-related issues are subject to a two-tier control system, where the individual segments are responsible for the local tax and duty matters and the reporting on these. The Corporate Tax function handles affairs related to Danfoss A/S and supervises the subsidiaries, by means of established processes, monthly validations in connection with reporting as well as random checks.

# Corporate governance recommendations

The following pages comprise Danfoss' position on the Recommendations on Corporate Governance issued by the Committee on Corporate Governance on November 23, 2017, in Denmark.

With a few exceptions, Danfoss has opted to follow the guidelines which apply to publicly-traded companies in Denmark. However, Danfoss is a family and foundation owned company with bonds listed at the Irish Stock Exchange and is as such not subject to the same disclosure requirements as companies with listed shares.

Danfoss' approach to the recommendations is based on the "comply or explain" principle, which means that we explain the reasons for any deviations, cf. section 107b of the Financial Statements Act. Failure to comply with a recommendation is not considered a breach of rules, but merely implies that the Board of Directors has chosen a different approach.

The recommendations below mention "Executive Board", which refers to a company's registered officers and signatories with the Danish Business Authority. In Danfoss, this relates to the CEO and CFO.



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, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in relation to the company.	X			
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 that the board of directors ensure that the interests of the stakeholders are respected in accordance with company policies.	X			
1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports	X			
<b>1.2. General meeting</b>				
1.2.1. The Committee <b>recommends</b> that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.	X			
1.2.2. The Committee <b>recommends</b> that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.	X			
<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. The contingency procedures should establish that 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.			X	Due to Danfoss' ownership structure, the Board of Directors does not find it necessary to establish such procedures.
<b>2. Tasks and responsibilities of the board of directors</b>				
<b>2.1. Overall tasks and responsibilities</b>				



Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
2.1.1. The Committee <b>recommends</b> that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.	✗			
2.1.2. The Committee <b>recommends</b> that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.	✗			
2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company's website.	✗			
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's reporting to the board of directors.	✗			
2.1.5. The Committee <b>recommends</b> that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.	✗			
<b>2.2. Corporate social responsibility</b>				
2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.	✗			
<b>2.3. Chairman and vice-chairman of the board of directors</b>				
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.	✗			
2.3.2. The Committee <b>recommends</b> that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration hereof should be publicly announced.	✗			



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>				
3.1.1. The Committee <b>recommends</b> that the board of directors annually evaluate and in the management commentary account for <ul style="list-style-type: none"> <li>the competencies that it must have to best perform its tasks,</li> <li>the composition of the board of directors, and</li> <li>the special competencies of each member.</li> </ul>	X			
3.1.2. The Committee <b>recommends</b> that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.	X			
3.1.3. The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.	X			
3.1.4. The Committee <b>recommends</b> that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates' <ul style="list-style-type: none"> <li>other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and</li> <li>demanding organisational tasks.</li> </ul> Furthermore, it should be indicated if the candidates to the board of directors are considered independent.		X		If the candidates for the Board are known at the time of convening a general meeting, the notice includes a description of qualifications and information about the candidates.
3.1.5. The Committee <b>recommends</b> that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.	X			
3.1.6. 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.	X			



Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<b>3.2. Independence of the board of directors</b>				
<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 a member of the executive board, or senior staff member in the company, a subsidiary or an associated company,</li> <li>• within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,</li> <li>• represent or be associated with a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company.</li> <li>• be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,</li> <li>• be part of the executive management in a company with cross-management representation in the company,</li> <li>• have been a member of the board of directors for more than 12 years, or</li> <li>• be a close relative with persons who are not considered independent.</li> </ul> <p>Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.</p>	×			
<b>3.3. Members of the board of directors and the number of other management functions</b>				
<p>3.3.1. The Committee <b>recommends</b> that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.</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>3.3.2. 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:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the person in question,</li> <li>• the person’s competencies and qualifications that are relevant to the company</li> <li>• whether the member is considered independent,</li> <li>• the member’s date of appointment to the board of directors,</li> <li>• expiry of the current election term,</li> <li>• the member’s participation in the meetings on the board of directors and committee meetings,</li> <li>• other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and</li> <li>• the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member’s portfolio of the mentioned securities which have occurred during the financial year.</li> </ul>		×		For discretionary reasons, the company does not state the number of shares held by the individual board members.
<p>3.3.3. The Committee <b>recommends</b> that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.</p>	×			
<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:</p> <ul style="list-style-type: none"> <li>• the terms of reference of the board committees,</li> <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 regarding which members are independent members and which members have special competencies.</li> </ul>	×			
<p>3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.</p>	×			
<p>3.4.3. The Committee <b>recommends</b> that the members of the board of directors set up an <u>audit committee</u> and that a chairman is appointed who is not the chairman 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
<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 monitor and report 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>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 function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,</li> <li>• ensure that if an internal audit has been established, a description of its functions is available and approved by the board of directors,</li> <li>• ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and</li> <li>• monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	×			
<p>3.4.6. The Committee <b>recommends</b> that the board of directors establish a <u>nomination committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,</li> <li>• annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,</li> <li>• annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,</li> <li>• recommending candidates for the board of directors and the executive board, and</li> <li>• proposing 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>Danfoss has decided not to set up a nomination committee. Instead, the entire Board handles this task.</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>3.4.7. The Committee <b>recommends</b> that the board of directors establish a <u>remuneration committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>recommending 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>making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring 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 on the total remuneration that members of the board of directors and the executive board receive from other companies in the group,</li> <li>recommending a remuneration policy applicable for the company in general and</li> <li>assisting with the preparation of the annual remuneration report.</li> </ul>			✘	Danfoss has decided not to set up a remuneration committee. Instead, the entire Board handles this task.
<p>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.</p>			✘	Danfoss has decided not to set up a remuneration committee. Instead, the entire Board handles this task.
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>				
<p>3.5.1. The Committee <b>recommends</b> that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:</p> <ul style="list-style-type: none"> <li>contribution and results,</li> <li>cooperation with the executive board,</li> <li>the chairman’s leadership of the board of directors,</li> <li>the composition of the board of directors (including competencies, diversity and the number of members),</li> <li>the work in the committees and the committee structure, and</li> <li>the organisation and quality of the material that is submitted to the board of directors.</li> </ul> <p>The evaluation procedure and the general conclusions should be described in the management commentary and on the company’s website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions on the general meeting prior to the election 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
3.5.2. The Committee <b>recommends</b> that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.	✗			
3.5.3. 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.	✗			
<b>4. Remuneration of management</b>				
<b>4.1. Form and content of the remuneration policy</b>				
4.1.1. The Committee <b>recommends</b> that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes <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,</li> <li>• a description of the criteria that form the basis for the balance between the individual components of the remuneration, and</li> <li>• an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.</li> </ul> <p>The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and it should be published on the company's website.</p>	✗			
4.1.2. The Committee <b>recommends</b> that if the remuneration policy includes variable components, <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 composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,</li> <li>• clarity be established about performance criteria and measurability for the award of variable components,</li> <li>• it is ensured that variable remuneration not only consists of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and</li> <li>• it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.</li> </ul>	✗			



Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options or warrants.	✗			
4.1.4. The Committee <b>recommends</b> that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.	✗			
4.1.5. The Committee <b>recommends</b> that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.	✗			
<b>4.2. Disclosure of remuneration</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.	✗			
4.2.2. The Committee <b>recommends</b> that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.	✗			
4.2.3. The Committee <b>recommends</b> that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.  The remuneration report should be published on the company's website.		✗		For discretionary reasons, the company does not disclose individual salaries.
<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 consider and in the management commentary 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.	✗			



Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/ not complying with the recommendation
<b>5.2. Whistleblower scheme</b>				
5.2.1. The Committee <b>recommends</b> that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.	✗			
<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 elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.	✗			
5.3.2. The Committee <b>recommends</b> that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.	✗			

ENGINEERING  
TOMORROW

*Danfoss*

Further information available  
on Danfoss' website: [www.danfoss.com](http://www.danfoss.com)

Date of publication: **February 28, 2019**

Contact address:

**Danfoss A/S**  
Nordborgvej 81  
6430 Nordborg  
Denmark  
Tel.: +45 7488 2222  
CVR no. 20165715 (registration number with the Danish Business Authority)  
Email: [danfoss@danfoss.com](mailto:danfoss@danfoss.com)

Follow us here:

---

-  [www.facebook.com/danfoss](http://www.facebook.com/danfoss)
-  [www.twitter.com/danfoss](http://www.twitter.com/danfoss)
-  <http://plus.google.com/+danfoss>
-  [www.youtube.com/danfossgroup](http://www.youtube.com/danfossgroup)
-  [www.linkedin.com/company/danfoss](http://www.linkedin.com/company/danfoss)