



Statutory report on corporate governance for the financial year 2017, cf. section 107 b of the Danish Financial Statement Act

This statement forms part of the management's report in the Annual Report 2017 for GN Store Nord A/S covering the period January 1 – December 31, 2017 and is not included in the independent auditor's report.

Management

GN Store Nord (GN) has a two-tier management system in which the Board of Directors and the Executive Management are responsible for managing the company's affairs. The Board of Directors currently comprises nine members of which six members have been elected at the Annual General Meeting and three members have been elected by the employees. The Board of Directors has established four committees: the audit committee currently consisting of three Board members assisting the Board of Directors in monitoring aspects relating to accounting, auditing and internal control; a remuneration committee currently consisting of three Board members assisting the Board of Directors in monitoring aspects relating to the remuneration of the Board of Directors, the Executive Management and senior employees - and in ensuring that the company's general remuneration policies are in line with the interests of the shareholders; a strategy committee consisting of three Board members assisting the Board of Directors with exploratory research projects aiming at discovering potential future business opportunities leveraging GN's core knowledge and competencies, but outside GN's immediate area of operation; and a nomination committee consisting of two Board members assisting the Board of Directors with nomination of members for the Board of Directors and the Executive Management. The Executive Management consists of three people who are responsible for the day-to-day management of the company, observing the guidelines and recommendations issued by the Board of Directors.

Internal control of financial reporting

The primary responsibility for GN's risk management and internal control systems, including compliance with applicable legislation and other financial reporting regulations, rests with the Board of Directors and the Executive Management. GN's risk management and internal control systems related to financial reporting, including IT and tax, are designed to ensure that both the internal and the external financial reporting provide a true and fair view of the group's financial position and results without any material misstatements.

Control environment

Internal control in GN is based on organizational structure, decision-making procedures, powers and responsibilities, which are documented and communicated in governing documents such as internal policies, codes and the like. Internal control is also based on procedures described in manuals and memos. The Executive Management has established central compliance and controlling functions for the purpose of monitoring compliance with relevant legislation and other financial reporting requirements and controlling financial reporting from subsidiaries and associated companies. GN has established an audit committee which duties involve evaluation and discussion of significant issues within the areas of accounting



and financial reporting. The audit committee has quarterly meetings with the external auditors and various specialists in senior management and support functions. The Board of Directors is kept informed on an ongoing basis about the proceedings of the audit committee meetings. GN has also issued an ethical guideline applying to all of its employees as well as established a whistleblower hotline.

Risk assessment

At least once a year, the audit committee and the Executive Management make a group-wide assessment of risks related to the financial reporting process. The purpose of this risk assessment is to identify processes related to the financial reporting process, in which the likelihood of a material misstatement is most significant. The risk assessment is carried out as a top-down approach, identifying significant and high-risk processes from a group perspective. On the basis of such risk assessment, GN focuses on implementing measures to manage and reduce risk in these processes. The most significant risks related to the financial reporting are described in the management's report and note 1 to the financial statements.

Control activities

Firstly, the control structures consist of an organization with clearly defined roles that support an effective, and from an internal control perspective, appropriate division of responsibility, and secondly, specific control activities intended to identify or prevent the risk of errors in the financial reporting. The focus of control activities are based on a risk assessment. The objective of GN's control activities is to ensure compliance with the objectives, policies, manuals, procedures and other guidelines communicated by management and the timely prevention, detection and correction of any errors, discrepancies or omissions. Control activities comprise manual and physical controls, general IT controls and automatic application controls in IT systems. Management has established a formal group reporting process, which comprises reporting of budget figures and monthly reporting, including reporting on budget variances and ongoing adjustment of full-year estimates. In addition to the income statement, the balance sheet and the cash flow statement, the reporting comprises notes and other disclosures. Quarterly reviews are performed to identify the potential need for impairment of goodwill, development projects and tax assets. The results of the reviews are reported to and discussed with the audit committee. Controller visits are conducted, among other things, to evaluate internal control systems of subsidiaries and to ensure that subsidiaries comply with approved principles and policies. The planned frequency of controller visits is presented to and approved by the audit committee, and the audit committee has approved the standard scope and reporting models for controller visits. The results of the controller visits are reported to the Executive Management, the independent auditors and the local management.

Information and communication

GN has established a procedure with the purpose of ensuring a uniform and structured approach to internal control in the group's subsidiaries to ensure that internal policies, codes and the like, which forms the foundation for internal control in GN, always are available for all subsidiaries on the company's intranet. The procedure ensures an ongoing dialog with the subsidiaries regarding the requirements to and prioritization of internal controls. Planned activities and progress in the process are reported to management and to the audit committee. The principles for the company's

presentation of its financial statements are described in a financial reporting manual that applies to all subsidiaries. The manual is available on the intranet. Financial reporting is done in a corporate reporting system that provides full transparency for the parent company into each individual reporting unit. The financial reporting is supported by monthly management reporting from the units.

Monitoring

The process for assessing risks and the execution of control activities are monitored on an ongoing basis. Monitoring involves both formal and informal procedures applied by management and owners of processes, risks and controls including reviews of results in comparison with budgets and plans, analytical procedures and key performance indicators. On an ongoing basis, management monitors compliance with relevant legislation and other financial reporting requirements and reports to the Board of Directors and the audit committee. Management has established procedures to ensure that the organization is informed in due time about new or changed accounting regulation relevant for GN. At least once a year, the Board of Directors reviews the adequacy of the internal control systems. At the board meeting where the annual report is reviewed, the board members discuss the internal control systems with the auditors elected by the shareholders at the Annual General Meeting. Based on the auditors' reporting in the long-form audit report, the Board of Directors and the independent auditors discuss the audit results, the material accounting policies applied, critical accounting estimates and the appropriateness of the accounting policies applied.

Principles for good corporate governance

Corporate governance, defined as “the system used to lead and control a business”, is largely built into the requirements on boards laid down in the Danish Companies Act. The Board of Directors and the Executive Management of GN continuously strive to maintain a high corporate governance level in GN at all times.

Reporting concerning the recommendations from the committee on corporate governance

The website of the committee on corporate governance – www.corporategovernance.dk – lists the committee's recommendations on good practice in corporate governance in five main points. As a company listed on Nasdaq Copenhagen, GN is required to report on its compliance with these recommendations either in its annual report or on the company's website, according to the “follow or explain” principle. GN's compliance with the individual recommendations is stated on the following pages.

Once a year, the Board of Directors considers the Danish committee on corporate governance's recommendations on good corporate governance.

The “supreme and central governing bodies” at GN are its Board of Directors.

The report covers the financial year 2017

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
1. Communication and interaction by the company with its investors and other stakeholders				
<i>1.1. Dialogue between company, shareholders and other stakeholders</i>				
1.1.1. The Committee recommends that the Board of Directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the Board of Directors to be aware of the shareholders' views, interests and opinions on the company.	x			
1.1.2. The Committee recommends that the Board of Directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.	x			
1.1.3. The Committee recommends that the company publish quarterly reports	x			
<i>1.2. General meeting</i>				
1.2.1. The Committee recommends that when organizing the company's general meeting, the Board of Directors plans the meeting to support active ownership.	x			
1.2.2. The Committee recommends that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.	x			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
1.3. Takeover bids				
1.3.1. The Committee recommends that the company set up contingency procedures in the event of takeover bids from the time that the Board of Directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the Board of Directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.	x			
2. Tasks and responsibilities of the Board of Directors				
2.1. Overall tasks and responsibilities				
2.1.1. The Committee recommends that at least once a year the Board of Directors take a position on the matters related to the board's performance of its responsibilities.	x			
2.1.2. The Committee recommends that at least once a year the Board of Directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	x			
2.1.3. The Committee recommends that the Board of Directors ensure that the company has a capital and share structure ensuring that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the Board of Directors presents this in the management commentary on the company's annual report and/or on the company's website.	x			
2.1.4. The Committee recommends that the Board of Directors annually review and approve guidelines for the executive board; this includes establishing requirements	x			

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
for the executive board on timely, accurate and adequate reporting to the Board of Directors.				
2.1.5. The Committee recommends that at least once a year the Board of Directors discuss the composition of the executive board, as well as developments, risks and succession plans.	X			
2.1.6. The Committee recommends that once a year the Board of Directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.	X			
2.2. Corporate social responsibility				
2.2.1. The Committee recommends that the Board of Directors adopt policies on corporate social responsibility.	X			
2.3. Chairman and vice-chairman of the Board of Directors				
2.3.1. The Committee recommends appointing a vice-chairman of the Board of Directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.	X			
2.3.2. The Committee recommends ensuring that, if the Board of Directors, in exceptional cases, asks the chairman of the Board of Directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the Board of Directors maintains its independent, overall management and control function.	X			

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Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.				
3. Composition and organization of the Board of Directors				
<i>3.1. Composition</i>				
3.1.1. The Committee recommends that the Board of Directors annually accounts for <ul style="list-style-type: none"> • the skills it must have to best perform its tasks, • the composition of the Board of Directors, and • the special skills of each member. 	x			
3.1.2. The Committee recommends that the selection and nomination of candidates for the Board of Directors be carried out through a thoroughly transparent process approved by the overall Board of Directors. When assessing its composition and nominating new candidates, the Board of Directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.	x			
3.1.3. The Committee recommends that a description of the nominated candidates' qualifications, be accompanied by the notice convening the general meeting when election of members to the Board of Directors is on the agenda, including information about the candidates' <ul style="list-style-type: none"> • other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises, • demanding organizational tasks, and information • about whether candidates to the Board of Directors are considered independent. 	x			

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3.1.4. The Committee recommends that the company's articles of association stipulate a retirement age for members of the Board of Directors.			x	Mandatory retirement age has been removed to align with Danish legislation and international governance recommendations regarding abolishment of mandatory retirement age
3.1.5. The Committee recommends that members of the Board of Directors elected by the general meeting be up for election every year at the Annual General Meeting.	x			
3.2. Independence of the Board of Directors				
<p>3.2.1. The Committee recommends that at least half of the members of the Board of Directors elected by the general meeting be independent persons, in order for the Board of Directors to be able to act independently of special interests. To be considered independent, this person may not:</p> <ul style="list-style-type: none"> • 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, • within the past five years, have received larger emoluments from the company/group, a subsidiary undertaking or an associate in another capacity than as member of the Board of Directors, • represent the interests of a controlling shareholder, • 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, • be, or within the past three years have been, employed or partner at the external auditor, • have been chief executive in a company holding cross-memberships with the company, 	x			

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<ul style="list-style-type: none"> • have been member of the Board of Directors for more than 12 years, or • have been close relatives with persons who are not considered independent. 				
3.3. Members of the Board of Directors and the number of other executive functions				
3.3.1. The Committee recommends that each member of the Board of Directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.	X			
3.3.2. The Committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the Board of Directors: <ul style="list-style-type: none"> • the position of the relevant person, • the age and gender of the relevant person, • whether the member is considered independent, • the date of appointment to the Board of Directors of the member, • expiry of the current election period, • other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and demanding organizational tasks, and • 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. 	X			
3.4. Board committees				
3.4.1. The Committee recommends that the company publish the following on the company's website:	X			

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<ul style="list-style-type: none"> the terms of reference of the board committees, the most important activities of the committees during the year, and the number of meetings held by each committee, and 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. 				
3.4.2. The Committee recommends that a majority of the members of a board committee be independent.	x			
3.4.3. The Committee recommends that the Board of Directors set up a formal <u>audit committee</u> composed such that <ul style="list-style-type: none"> the chairman of the Board of Directors is not chairman of the audit committee, and 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. 	x			
3.4.4. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the Board of Directors about: <ul style="list-style-type: none"> significant accounting policies, significant accounting estimates, related party transactions, and uncertainties and risks, including in relation to the outlook for the current year. 	x			
3.4.5. The Committee recommends that the audit committee:	x			

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<ul style="list-style-type: none"> 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 monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function. 				
<p>3.4.6. The Committee recommends that the Board of Directors establish a nomination committee chaired by the chairman of the Board of Directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> 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, 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, annually assess the competences, knowledge and experience of the individual members of management, and report to the Board of Directors in this respect, 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 propose an action plan to the Board of Directors on the future composition of the Board of Directors, including proposals for specific changes. 	x			
<p>3.4.7. The Committee recommends that the Board of Directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> 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, 	x			

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<ul style="list-style-type: none"> 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 recommend a remuneration policy applicable for the company in general. 				
3.4.8. The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company.	X			
3.5. Evaluation of the performance of the Board of Directors and the executive board				
3.5.1. The Committee recommends that the Board of Directors establish an evaluation procedure where contributions and results of the Board of Directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.	X			
3.5.2. The Committee recommends that in connection with preparation of the general meeting, the Board of Directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.	X			
3.5.3. The Committee recommends that at least once every year the Board of Directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.	X			
3.5.4. The Committee recommends that the executive board and the Board of Directors establish a procedure according to which their cooperation is evaluated	X			

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<p>annually through a formalized dialogue between the chairman of the Board of Directors and the chief executive officer and that the outcome of the evaluation be presented to the Board of Directors.</p>				
<p>4. Remuneration of management</p>				
<p><i>4.1. Form and content of the remuneration policy</i></p>				
<p>4.1.1. The Committee recommends that the Board of Directors prepare a clear and transparent remuneration policy for the Board of Directors and the executive board, including</p> <ul style="list-style-type: none"> • a detailed description of the components of the remuneration for members of the Board of Directors and the executive board, • the reasons for choosing the individual components of the remuneration, and • a description of the criteria on which the balance between the individual components of the remuneration is based. <p>The remuneration policy should be approved by the general meeting and published on the company's website.</p>	x			
<p>4.1.2. The Committee recommends that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> • limits be set on the variable components of the total remuneration package, • 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, • there be clarity about performance criteria and measurability for award of variable components, • there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and 	x			

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<ul style="list-style-type: none"> 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. 				
4.1.3. The Committee recommends that remuneration of members of the Board of Directors does not include share options.	X			
4.1.4. The Committee recommends that if share-based remuneration is provided, such programs be established as roll-over programs, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.	X			
4.1.5. The Committee recommends that agreements on termination payments should not amount to more than two years' annual remuneration.	X			
<i>4.2. Disclosure of the remuneration policy</i>				
4.2.1. The Committee recommends that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.	X			
4.2.2. The Committee recommends that the proposed remuneration for the Board of Directors for the current financial year be approved by the shareholders at the general meeting.	X			
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.	X			

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5. Financial reporting, risk management and audits				
<i>5.1. Identification of risks and transparency about other relevant information</i>				
5.1.1. The Committee recommends that the Board of Directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	x			
<i>5.2. Whistleblower scheme</i>				
5.2.1. The Committee recommends that the Board of Directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.	x			
<i>5.3. Contact to auditor</i>				
5.3.1. The Committee recommends that the Board of Directors ensure regular dialogue and exchange of information between the auditor and the Board of Directors, including that the Board of Directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.	x			
5.3.2. The Committee recommends that the audit agreement and auditors' fee be agreed between the Board of Directors and the auditor on the basis of a recommendation from the audit committee.	x			