



Resilient by nature

Report on Danish Corporate Governance
recommendations 2021

ROCKWOOL International A/S



What can the template be used for?

This template is meant as a tool for Danish companies with shares admitted to trading on a regulated market who wish to report on the company's compliance with the recommendations on corporate governance in a standard reporting format.

Companies shall not consider compliance with the introductory principles. The principles seek to explain general reflections which companies may take into account when assessing which approach to take in respect of the individual recommendations under each section. The Committee's explanatory notes provided under some of the recommendations may be included as guidelines and inspiration for companies in implementing the recommendations. In this connection the explanatory notes are meant as a tool. Reporting on the Danish Committee's Recommendations on Corporate Governance must be made in relation to the recommendations – and not the principles or explanatory notes.

The report on corporate governance must be published as either part of the management commentary on the annual report or on the company's website with exact reference to the management commentary. The Committee believes that publication of the corporate governance report on the company's website - with exact reference to the report in the management commentary - creates the highest degree of transparency. Publication of the report on the company's website provides easier access for investors and other stakeholders.

Under the Danish Financial Statements Act a publication on the company's website requires that the URL address – where the corporate governance report is published – is stated in the management commentary in the annual report. The URL address must be the internet address which can be used to access the report **directly**.

There are further requirements to the preparation of the report on corporate governance and how it is to be published. The detailed requirements are described in Executive order no. 959 of 13 September 2019 on Publication of Reports pursuant to the Danish Financial Statements Act.

Notice: The template below contains the recommendations of the Danish Committee on Corporate Governance of 2 December 2020. The recommendations are available on the website of the Danish Committee on Corporate Governance, corporategovernance.dk. Nasdaq Copenhagen A/S has decided to include the recommendations in the Nordic Main Market Rulebook for Issuers of Shares effective from 4 January 2021.

This template may be used for the preparation of the report on corporate governance in annual reports concerning financial years commencing 1 January 2021 or later.

Reporting and the comply or explain approach

It is stated in section 107 b of the Danish Financial Statements Act that a company with shares admitted to trading on a regulated market must include a report on corporate governance in the management commentary of the annual report.

This means that each company in the corporate governance statement must give an account of which recommendations the company has chosen to comply with and which ones they have not, regardless of whether complied with or deviated from the recommendation.

If a company deviates from parts of the recommendations, the company has to explain the reasons for the deviations, cf. section 107 b (1) (iii) of the Danish Financial Statements Act. The company has to explain why it has chosen not to comply with a recommendation and what it has chosen to do instead.

A company may thus be compliant if the company instead of complying with a recommendation explains the above mentioned.

Note that the reporting must reflect the company's position at the time of publication of the annual report. However, any significant changes that occurred after the completion of the company's accounts, but before the publication of the annual report, should be included in the corporate governance statement.

In order to create the transparency necessary for investors and other stakeholders, the company must respond to each recommendation and provide information on whether the company complies with the recommendation in question.

Statutory report on corporate governance, cf. section 107 b of the Danish Financial Statements Act.

Notice!

The report constitutes a part of the management commentary on the annual report concerning the financial year:
1/1 – 31/12 2021

This report entails an outline of how ROCKWOOL International A/S (RI) responds to the Danish Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance in December 2020, an introduction to its management structure description of the main elements of the company's internal control and risk procedures in connection with the financial reporting process.

RI is subject to the Danish Recommendations on Corporate Governance. The recommendations are available on the website of the Danish Committee on Corporate Governance, www.corporategovernance.dk.

The recommendations are not mandatory, but companies listed on the Nasdaq Copenhagen stock exchange must adopt the “comply-or-explain” principle. The principle implies that companies must apply the recommendations issued by the Committee for Corporate Governance or explain why they refrain from doing so. As a listed company, RI has addressed the recommendations below. RI is generally in compliance with the recommendations, but has in some cases chosen to differ. RI has addressed the reasons hereto below, in accordance with the comply-or-explain principle.

GOVERNANCE BODIES AND COMMITTEES AND THEIR FUNCTION

RI has a management structure with a Board of Directors and an executive board referred to as the Executive Management. The Board of Directors is responsible for the overall and strategic management and shall ensure proper organisation of the company whereas the Executive Management undertakes the day-to-day management of the company.

Board of Directors

The Board of Directors currently consists of nine members, six of which are elected by the shareholders at general meetings. Of these, four members are deemed independent according to the Danish Recommendations on Corporate Governance. The remaining three members are elected by the employees pursuant to the Danish Companies Act. The roles and responsibilities of the Board of Directors are defined in the Business Procedure for the Board of Directors. The members of the Board of Directors are elected by the general meeting for a period of one year and may be re-elected.

The Board of Directors evaluates its performance every year. Further, the Board of Directors evaluates the work and performance of the Executive Management annually.

The Board of Directors has established a chairmanship consisting of the chairman and the deputy chairman.

The Board of Directors has set up an audit committee, a nomination committee and a remuneration committee. The committees report to the Board of Directors.

Executive Management

Executive Management consists of the president and CEO and the CFO, who are registered as directors with the Danish Business Authority. Executive Management is responsible for the day-to-day management of the company and the compliance with the guidelines and recommendations set forth by the Board of Directors. The responsibility of the Executive Management covers organization of the company as well as allocation of resources, producing and implementing strategies and policies and ensuring timely reporting to the Board of Directors.

Audit Committee

The Board of Directors has appointed an audit committee consisting of three members of the Board of Directors. The majority of the members of the audit committee are independent.

The audit committee monitors accounting and audit policies and conditions, which, if determined by the Board of Directors or the audit committee, should be subject to a thorough evaluation. Further, the audit committee evaluates the company's internal control and risk systems.

Remuneration Committee

The Board of Directors has appointed a remuneration committee consisting of two members of the Board of Directors; the chairman, who is considered not to be independent, and the deputy chairman, who is considered independent.

The remuneration committee prepares the remuneration policy for the members of the Board of Directors, the Executive Management and senior executives. The remuneration policy and the incentive guidelines, and all changes thereto, are approved by the Board of Directors, as well as the general meeting. The remuneration committee evaluates and brings forward recommendations for the remuneration of the Board of Directors and Executive Management. The remuneration committee is authorized by the Board of Directors to approve remuneration for senior executives. The remuneration committee assists with the preparation of the annual remuneration report.

Nomination Committee

The Board of Directors has appointed a nomination committee consisting of two members of the Board of Directors; the chairman, who is considered not to be independent, and the deputy chairman, who is considered independent.

The nomination committee identifies and recommends to the Board of Directors persons who are qualified to become members of the Board of Directors and Executive Management. The nomination committee further recommends removal of such persons, if relevant. The nomination committee reviews and suggests changes to relevant corporate policies, including corporate governance.

Risk Management

The Board of Directors continuously evaluates the overall and specific risks associated with the company's activities and operations and the risks associated with the financial reporting process. The aim is to ensure that these risks are addressed in a proactive and efficient manner. As part of the general risk management, the company has established different internal control systems that are continuously examined by the Board of Directors to ensure that they are appropriate and adequate considering the company's current activities and operation.

Auditing

To safeguard the interests of shareholders and the general public, an independent auditor is appointed at the general meeting following a recommendation from the Board of Directors. Before making its recommendation the Board of Directors undertakes a critical evaluation of the auditor's independence and competence.

The auditor submits a written report to the assembled Board of Directors once a year but also immediately after identifying any issues of which the Board of Directors should be informed. The auditor's report is discussed in detail in the audit committee.

The Group works closely with the auditor in relation to procedures and internal controls by exchanging controller reports and audit reports, and by generally sharing all relevant information.

Internal control

The Group considers strong internal controls to be an essential management tool.

Executive Management sets out general requirements for business processes and internal controls in the financial area of subsidiaries. The internal control system includes clearly defined organizational roles and responsibilities, reporting requirements and authorities. The local management teams are responsible for ensuring that the control environment in each company is sufficient to meet local and Group requirements.

Each month the Group's companies report financial data and each quarter comment on financial and commercial developments to head office in Hedehusene. This information is used to prepare consolidated financial statements and reports for Executive Management. As part of this process

the accounting information reported by all companies in the Group is reviewed both by controllers with regional links and in-depth knowledge of the individual companies, and by Group controlling.

Twice a year, the financial directors of the Group's companies meet with Group controlling to align financial procedures and reporting, and suggest possible improvements. Commercial and financial development, and the associated risks, is also discussed by Executive Management during regular meetings with local management teams.

Group Internal Audit

The Audit Committee annually assesses the need for an internal audit function as outlined in recommendation 3.4.3. The Audit Committee finds that the present set-up, where Executive Management has established an internal control function, is adequate.

Danish Recommendations on Corporate Governance

Recommendation	The company <u>complies</u>	The company <u>explains</u> ¹	
		<i>why</i>	<i>how</i>
1.1.1. The Committee recommends that the management through ongoing dialogue and interaction ensures that shareholders, investors and other stakeholders gain the relevant insight into the company's affairs, and that the board of directors obtains the possibility of hearing and including their views in its work.	x		
1.1.2. The Committee recommends that the company adopts policies on the company's relationships with its shareholders, investors and if relevant other stakeholders in order to ensure that the various interests are included in the company's considerations and that such policies are made available on the company's website.	x		
1.1.3. The Committee recommends that the company publishes quarterly reports.	x		
1.2.1. The Committee recommends that the board of directors organises the company's general meeting in a manner that allows shareholders, who are unable to attend the meeting in person or are represented by proxy at the general meeting, to vote and raise questions to the management prior to or at the general meeting. The Committee recommends that the board of directors ensures that shareholders can observe the general meeting via webcast or other digital transmission.	x		

¹ If the company does not comply with a recommendation, the company must specifically explain; *why* the company has decided not to comply with the recommendation, and *which* approach the company has chosen instead. A comprehensive explanation answers both questions and is considered as compliant. Thus, it is important that the company answers both questions in its explanation.

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
1.2.2. The Committee recommends that proxies and postal votes to be used at the general meeting enable the shareholders to consider each individual item on the agenda.	x			
1.3.1. The Committee recommends that the company has a procedure in place in the event of takeover bids, containing a “road map” covering matters for the board of directors to consider in the event of a takeover bid, or if the board of directors obtains reasonable grounds to suspect that a takeover bid may be submitted. In addition, it is recommended that it appears from the procedure that the board of directors abstains from countering any takeover bids by taking actions that seek to prevent the shareholders from deciding on the takeover bid, without the approval of the general meeting.	x			
1.4.1. The Committee recommends that the board of directors adopts a policy for the company’s corporate social responsibility, including social responsibility and sustainability, and that the policy is available in the management commentary and/or on the company’s website. The Committee recommends that the board of directors ensures compliance with the policy.	x			
1.4.2. The Committee recommends that the board of directors adopts a tax policy to be made available on the company’s website.	x			
2.1.1. The Committee recommends that the board of directors in support of the company’s statutory objects according to its articles of association and the long-term value creation considers the company’s purpose and ensures and promotes a good culture and sound values in the company. The company should provide an	x			

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
account thereof in the management commentary and/or on the company's website.				
2.1.2. The Committee recommends that the board of directors at least once a year discusses and on a regular basis follows up on the company's overall strategic targets in order to ensure the value creation in the company.	x			
2.1.3. The Committee recommends that the board of directors on a continuously basis takes steps to examine whether the company's share and capital structure supports the strategy and the long-term value creation in the interest of the company as well as the shareholders. The Committee recommends that the company gives an account thereof in the management commentary.	x			
2.1.4. The Committee recommends that the board of directors prepares and on an annual basis reviews guidelines for the executive management, including requirements in respect of the reporting to the board of directors.	x	The Board of Directors has issued a set of management instructions for the executive management, which instructions are reviewed on an annual basis.		
2.2.1. The Committee recommends that the board of directors, in addition to a chairperson, appoints a vice chairperson, who can step in if the chairperson is absent and who can generally act as the chairperson's close sparring partner.	x			

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
<p>2.2.2. The Committee recommends that the chairperson in cooperation with the individual members of the board of directors ensures that the members up-date and supplement their knowledge of relevant matters, and that the members' special knowledge and qualifications are applied in the best possible manner.</p>	x			
<p>2.2.3. The Committee recommends that if the board of directors, in exceptional cases, requests a member of the board of directors to take on special duties for the company, for instance, for a short period to take part in the daily management of the company, the board of directors should approve this in order to ensure that the board of directors maintains its independent overall management and control function. It is recommended that the company publishes any decision on allowing a member of the board of directors to take part in the daily management, including the expected duration thereof.</p>	x			
<p>3.1.1. The Committee recommends that the board of directors on an annual basis reviews and in the management commentary and/or on the company's website states</p> <ul style="list-style-type: none"> • which qualifications the board of directors should possess, collectively and individually, in order to perform its duties in the best possible manner, and • the composition of and diversity on the board of directors. 	x			
<p>3.1.2. The Committee recommends that the board of directors on an annual basis discusses the company's activities in order to</p>	x			

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
ensure relevant diversity at the different management levels of the company and adopts a diversity policy, which is included in the management commentary and/or available on the company's website.				
3.1.3. The committee recommends that candidates for the board of directors are recruited based on a thorough process approved by the board of directors. The Committee recommends that in assessing candidates for the board of directors – in addition to individual competencies and qualifications – the need for continuity, renewal and diversity is also considered.	x			
3.1.4. The Committee recommends that the notice convening general meetings, where election of members to the board of directors is on the agenda - in addition to the statutory items - also includes a description of the proposed candidates' <ul style="list-style-type: none"> • qualifications, • other managerial duties in commercial undertakings, including board committees, • demanding organisational assignments and • independence. 	x			
3.1.5. The Committee recommends that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually.	x			
3.2.1. The Committee recommends that at least half of the members of the board of directors elected in general meeting are	x			

Recommendation

**The company
complies**

The company explains¹

why

how

independent in order for the board of directors to be able to act independently avoiding conflicts of interests.

In order to be independent, the member in question may not:

- be or within the past five years have been a member of the executive management or an executive employee in the company, a subsidiary or a group company,
- within the past five years have received large emoluments from the company/group, a subsidiary or a group company in another capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year have had a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company, which is significant for the company and/or the business relationship,
- be or within the past three years have been employed with or a partner in the same company as the company's auditor elected in general meeting,
- be a CEO in a company with cross-memberships in the company's management,
- have been a member of the board of directors for more than twelve years, or
- be closely related to persons, who are not independent, cf. the above-stated criteria.

Recommendation	The company <u>complies</u>	The company <u>explains</u> ¹	
		<i>why</i>	<i>how</i>
Even if a member of the board of directors does not fall within the above-stated criteria, the board of directors may for other reasons decide that the member in question is not independent.			
3.2.2. The Committee recommends that members of the executive management are not members of the board of directors and that members retiring from the executive management does not join the board of directors immediately thereafter.	X The Board of Directors will not exclude situations, where it may decide to propose a former member of the Executive Management as candidate for the Board of Directors.		
3.3.1. The Committee recommends that the board of directors and each of the members on the board of directors, in connection with the annual evaluation, cf. recommendation 3.5.1., assesses how much time is required to perform the board duties. The aim is for the individual member of the board of directors not to take on more managerial duties than the board member in question is able to perform in a satisfactory manner.	x		
3.3.2. The Committee recommends that the management commentary, in addition to the statutory requirements, contains the following information on the individual members of the board of directors: <ul style="list-style-type: none"> • position, age and gender, 		The company considers the portfolio of shares, options warrants and similar in the company of each member of the Board of Directors to be a private matter and it is the company's judgment that	The company complies with this recommendation except for the last item. The company does not disclose each member of the Board of Directors' portfolio of shares,

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		<i>why</i>	<i>how</i>
<ul style="list-style-type: none"> • competencies and qualifications relevant to the company, • independence, • year of joining the board of directors, • year of expiry of the current election period, • participation in meetings of the board of directors and committee meetings, • managerial duties in other commercial undertakings, including board committees, and demanding organisational assignments, and • the number of shares, options, warrants, etc. that the member holds in the company and its group companies and any changes in such holdings during the financial year. 		disclosure of such information will not add additional value for shareholders and other stakeholders.	options, warrant and similar in the company. The remuneration of the members of the Board of Directors does not contain any share-based instruments.
<p>3.4.1. The Committee recommends that the management describes in the management commentary:</p> <ul style="list-style-type: none"> • the board committees' most significant activities and number of meetings in the past year, and • the members on the individual board committees, including the chairperson and the independence of the members of the committee in question. <p>In addition, it is recommended that the board committees' terms of reference are published on the company's website.</p>	x		
<p>3.4.2. The Committee recommends that board committees solely consist of members of the board of directors and that the majority of the members of the board committees are independent.</p>		Currently the remuneration and nomination committees have two members of which one is independent. The	The majority of the members of the remuneration and

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
			Board of Directors finds that the committees can perform their functions in a prudent manner even if the majority of the members are not independent.	nomination committees is not independent.
<p>3.4.3. The Committee recommends that the board of directors establishes an audit committee and appoints a chairperson of the audit committee, who is not the chairperson of the board of directors. The Committee recommends that the audit committee, in addition to its statutory duties, assists the board of directors in:</p> <ul style="list-style-type: none"> • supervising the correctness of the published financial information, including accounting practices in significant areas, significant accounting estimates and related party transactions, • reviewing internal control and risk areas in order to ensure management of significant risks, including in relation to the announced financial outlook, • assessing the need for internal audit, • performing the evaluation of the auditor elected by the general meeting, • reviewing the auditor fee for the auditor elected by the general meeting, • supervising the scope of the non-audit services performed by the auditor elected by the general meeting, and • ensuring regular interaction between the auditor elected by the general meeting and the board of directors, for 	x			

Recommendation

The company complies

The company explains¹

why

how

<p>instance, that the board of directors and the audit committee at least once a year meet with the auditor without the executive management being present.</p> <p>If the board of directors, based on a recommendation from the audit committee, decides to set up an internal audit function, the audit committee must:</p> <ul style="list-style-type: none"> • prepare terms of reference and recommendations on the nomination, employment and dismissal of the head of the internal audit function and on the budget for the department, • ensure that the internal audit function has sufficient resources and competencies to perform its role, and • supervise the executive management’s follow-up on the conclusions and recommendations of the internal audit function. 			
<p>3.4.4. The Committee recommends that the board of directors establishes a nomination committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> • describing the required qualifications for a given member of the board of directors and the executive management, the estimated time required for performing the duties of this member of the board of directors and the competencies, knowledge and experience that is or should be represented in the two management bodies, • on an annual basis evaluating the board of directors and the executive management’s structure, size, composition 	x		

Recommendation	The company <u>complies</u>	The company <u>explains</u> ¹	
		<i>why</i>	<i>how</i>
<p>and results and preparing recommendations for the board of directors for any changes,</p> <ul style="list-style-type: none"> • in cooperation with the chairperson handling the annual evaluation of the board of directors and assessing the individual management members' competencies, knowledge, experience and succession as well as reporting on it to the board of directors, • handling the recruitment of new members to the board of directors and the executive management and nominating candidates for the board of directors' approval, • ensuring that a succession plan for the executive management is in place, • supervising executive managements' policy for the engagement of executive employees, and • supervising the preparation of a diversity policy for the board of directors' approval. 			
<p>3.4.5. The Committee recommends that the board of directors establishes a remuneration committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> • preparing a draft remuneration policy for the board of directors' approval prior to the presentation at the general meeting, • providing a proposal to the board of directors on the remuneration of the members of the executive management, 	x		

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			<i>why</i>	<i>how</i>
<ul style="list-style-type: none"> • providing a proposal to the board of directors on the remuneration of the board of directors prior to the presentation at the general meeting, • ensuring that the management's actual remuneration complies with the company's remuneration policy and the evaluation of the individual member's performance, and • assisting in the preparation of the annual remuneration report for the board of directors' approval prior to the presentation for the general meeting's advisory vote. 				
<p>3.5.1. The Committee recommends that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation. The Committee recommends that the evaluation focuses on the recommendations on the board of directors' work, efficiency, composition and organisation, cf. recommendations 3.1.-3.4. above, and that the evaluation as a minimum always includes the following topics:</p> <ul style="list-style-type: none"> • the composition of the board of directors with focus on competencies and diversity • the board of directors and the individual member's contribution and results, • the cooperation on the board of directors and between the board of directors and the executive management, • the chairperson's leadership of the board of directors, • the committee structure and the work in the committees, 	x			

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
<ul style="list-style-type: none"> the organisation of the work of the board of directors and the quality of the material provided to the board of directors, and the board members' preparation for and active participation in the meetings of the board of directors. 				
<p>3.5.2. The Committee recommends that the entire board of directors discusses the result of the evaluation of the board of directors and that the procedure for the evaluation and the general conclusions of the evaluation are described in the management commentary, on the company's website and at the company's general meeting.</p>	x			
<p>3.5.3. The Committee recommends that the board of directors at least once a year evaluates the work and results of the executive management according to pre-established criteria, and that the chairperson reviews the evaluation together with the executive management. In addition, the board of directors should on a continuous basis assess the need for changes in the structure and composition of the executive management, including in respect of diversity, succession planning and risks, in light of the company's strategy.</p>	x			
<p>4.1.1. The Committee recommends that the remuneration for the board of directors and the executive management and the other terms of employment/service is considered competitive and consistent with the company's long-term shareholder interests.</p>	x			

Recommendation	The company <u>complies</u>		The company <u>explains</u> ¹	
			<i>why</i>	<i>how</i>
4.1.2. The Committee recommends that share-based incentive schemes are revolving, i.e. that they are periodically granted, and that they primarily consist of long-term schemes with a vesting or maturity period of at least three years.	x			
4.1.3. The Committee recommends that the variable part of the remuneration has a cap at the time of grant, and that there is transparency in respect of the potential value at the time of exercise under pessimistic, expected and optimistic scenarios.	x			
4.1.4. The Committee recommends that the overall value of the remuneration for the notice period, including severance payment, in connection with a member of the executive management's departure, does not exceed two years' remuneration including all remuneration elements.	x			
4.1.5. The Committee recommends that members of the board of directors are not remunerated with share options and warrants.	x			
4.1.6. The Committee recommends that the company has the option to reclaim, in whole or in part, variable remuneration from the board of directors and the executive management if the remuneration granted, earned or paid was based on information, which subsequently proves to be incorrect, or if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.	x			
5.1.1. The Committee recommends that the board of directors based on the company's strategy and business model considers,	x			

Recommendation	The company <u>complies</u>	The company <u>explains</u> ¹	
		<i>why</i>	<i>how</i>
for instance, the most significant strategic, business, accounting and liquidity risks. The company should in the management commentary give an account of these risks and the company's risk management.			
5.1.2. The Committee recommends that the board of directors establishes a whistleblower scheme, giving the employees and other stakeholders the opportunity to report serious violations or suspicion thereof in an expedient and confidential manner, and that a procedure is in place for handling such whistleblower cases.	x		