



**Statutory Corporate Governance Report for the financial year January 1, 2011 - December 31, 2011, cf. section 107b of the Danish Financial Statements Act.**

This statement forms part of the management's review in the Veloxis Pharmaceuticals Annual Report covering the period 1 January – 31 December 2011.

As required for a listed company on NASDAQ OMX Copenhagen under the rules for issuers of shares, Veloxis issues the below statement of compliance with the Danish Committee on Corporate Governance's recommendations using the "comply or explain"-principle. The recommendations have been published at [www.corporategovernance.dk](http://www.corporategovernance.dk). The recommendations specify that it is equally legitimate for a company to provide an explanation, as to comply with a specific recommendation, as the key issue is to create transparency in corporate governance matters.

The schedule below contains the Committee on Corporate Governance's recommendations of 16th of August 2011. NASDAQ OMX Copenhagen A/S decided to include the recommendations in the Rules for issuers of shares with effect as of 1 October 2011.

This corporate governance report also contains a description of the company's risk management and internal controls in relation to financial reporting.

**Practices of the Board of Directors**

The Articles of Association stipulate that the Board of Directors is elected by the Company's shareholders at the annual general meeting and members are elected for one-year terms. Members may stand for re-election for successive terms. The Board of Directors shall consist of not less than three and no more than nine members elected by the Company's shareholders at the general meeting. The Board of Directors has established a compensation committee and an audit committee. In 2011, the Board

met physically five times. Four meetings were attended by all board members; one of the members had to be excused from attending meetings during the year. In addition the Board had four meetings held as conference calls; three meetings were attended by all board members; one of the members had to be excused from attending meetings during the year. Further the Audit Committee met physically four times during 2011, and the Compensation Committee had two meetings held as conference calls during the year.

## **Guidelines for incentive pay**

### **BOARD MEMBERS**

Members of the Board of Directors receive a fixed annual fee. The Chairman of the Board of Directors and the Chairman of the Audit Committee and Chairman of the Compensation Committee receive a supplement to the fixed annual fee. In addition to the fixed annual fee, the members of the Board of Directors are annually granted a fixed number of warrants. The estimated present value of warrants granted in a given financial year may be up to 100 % of the fixed annual fee to the individual member of the Board of Directors. The estimated present value is calculated in accordance with the International Financial Reporting Standards (IFRS). The general terms and conditions applying to the grant, vesting, exercise, etc. of the warrants must be within the general terms and conditions applying if warrants are to be granted to members of the Executive Management, cf. below, and which also apply to other employees in the Company which has been granted warrants. Upon election, each member of the Board of Directors may decide to exchange the fixed number of warrants for an additional annual fee.

### **EXECUTIVES**

The Compensation Committee performs an annual review of the remuneration package paid to members of the Executive Management. The remuneration paid to members of the Executive Management consists of a fixed and a variable part. The fixed pay consists of cash salary, pension contribution and other benefits. As an element of the variable pay, members of the Executive Management may receive an annual bonus, subject to achievement of certain benchmarks.

The bonus proportion varies among the members of the Executive Management, but cannot exceed 100 % of the fixed annual cash salary. The actual bonus paid to the members of the Executive Management is disclosed in the Annual Report at an aggregated level. At the date of adoption of these guidelines, the bonus benchmarks comprise primarily of the progress in the Company's development of its product candidates, but they may be changed by the Board of Directors. The remuneration paid to members of the Executive Management is disclosed in the Annual Report 2011 on page 33.

Another element of the variable pay is made up of new warrants and is intended to ensure that the Executive Management's incentive correlates with creation of shareholder value. The estimated aggregated present value of new warrants granted in a given financial year to the members of the Executive Management may be up to 100 % of the aggregated fixed annual cash salary to the member of the Executive Management. The estimated present value is calculated in accordance with the International Financial Reporting Standards (IFRS). The grant of new warrants may or may not be subject to achievement of defined benchmarks. The exercise price of the new warrants cannot be less than the market price of the Company's stock at the date of grant. The new warrants may have a maximum term of up to 7 years and the exercise of the new warrants may be subject to a vesting period of up to 4 years. New warrants may be granted on such terms that the gain is taxed as share income while the costs of the grant are not tax deductible for the Company. The number of new warrants granted to members of the Executive Management is disclosed in the Annual Report 2011 on page 34.

## **Risk Management**

Veloxis is exposed to certain risks. Some of these may significantly affect our ability to execute our strategy. We categorize these as critical risks – and we have a program in place to ensure that we proactively identify, manage and mitigate them.

Contrary to the majority of biotechnology and pharma companies, Veloxis is less susceptible to development risks. Veloxis is currently working solely with drug substances already approved and being marketed by originator companies. This substantially decreases typical development risks such as lack of efficacy or unacceptable toxicological findings that normally account for more than 90% of the attrition rates in the pharmaceutical industry.

Veloxis is exposed to critical risks within such areas as research and development, commercialization, financial management, currency exposure, legal affairs and in relation to the financial reporting process.

Following are examples of these risks and how they are addressed.

### **RESEARCH AND DEVELOPMENT RISKS**

Performing research and development within the pharmaceutical industry is subject to significant risk. It is well known that new potential pharmaceutical products have to undergo a lengthy process, from early research through clinical studies and development activities, before they can be approved and authorized for sale on the market. Some product candidates are never approved; other projects are abandoned, for various reasons, during the research and development process.

Clinical studies are lengthy, time consuming, and expensive, and they have uncertain outcomes. Nevertheless, it is a regulatory requirement to conduct them to provide the necessary documentation for our product candidates to obtain a marketing

authorization. Over the development period, we work closely with the health authorities to ensure our development programs have the best possible chance of success.

## COMMERCIAL RISKS

Diverse commercial risk factors include risks related to market acceptance, effective commercialization, and competition related to Fenoglide<sup>®</sup> and the Veloxis product candidates, as well as the ability to attract and retain employees and partners.

We continuously monitor and evaluate the market development of, and the competitive landscape for, our products and product candidates to proactively manage applicable risks.

Our business strategy provides us with the freedom to seek partners for certain product candidates and develop our own sales and marketing organization for others. In 2008, we concluded an agreement with Cowen Healthcare Royalty Partners whereby we sold the future royalty stream related to the sale of Fenoglide<sup>®</sup> in North America and thereby mitigated the commercial risk significantly.

## FINANCIAL RISKS

Our expenses and investments are primarily in Danish kroner (DKK) and US dollars (USD). However, our revenues are in currencies other than DKK, primarily USD and, to a smaller extent, Euros (EUR). Therefore, our net expenses and any future investment or other income may be vulnerable to fluctuations in exchange rates.

We actively mitigate such fluctuation by placing some of our cash position in demand deposits in USD.. If we fail to manage foreign exchange risk adequately, the results of our operations and expectations, and the value of Veloxis, may be adversely affected.

We do not have any interest-bearing debt except for finance lease arrangements. Our interest risk is, therefore, primarily related to our cash position and cash equivalents. It is essential to our activities to ensure we maintain our capital while at the same time we maximize the income derived from our excess cash without significantly increasing the risk. Veloxis' treasury policy allows the company to hold excess cash at deposits with major Danish banks and in short term Danish government and mortgage bonds.

## LEGAL RISKS

Biotechnology and pharmaceutical companies are often involved in legal proceedings concerning a variety of issues, including product liability claims, claims related to quality and safety, and infringement of intellectual property rights. Currently, we are not

involved in any legal proceedings.

The appropriateness of the Veloxis insurance policies is assessed regularly. At least once a year, the Board of Directors reviews the insurance policies in detail. Currently, Veloxis carries product liability insurance for our product candidates in clinical development.

At Veloxis, quality and safety matters are of utmost importance. A detailed quality assurance system is in place for in-house company activities as well as for our external partners and suppliers.

Although we believe that the activities relating to Fenoglide<sup>®</sup> and our product candidates do not infringe on any third-party intellectual property rights, we can never rule out that we may become involved in costly and time-consuming intellectual property litigation. Our product and product candidates are subject to ongoing freedom-of-operation analyses in relation to third parties' intellectual property rights, and our competitors' activities are constantly under surveillance.

#### INTERNAL CONTROLS AND RISK MANAGEMENT IN RELATION TO THE FINANCIAL REPORTING

Veloxis internal controls and risk management are planned with a view to presenting financial reports in accordance with International Financial Reporting Standards (IFRS), as approved by the EU, and other disclosure requirements to annual reports of listed companies, providing a true and fair view without material misstatement; selecting and applying appropriate accounting policies and exercise of accounting estimates that are reasonable in the circumstances.

The Executive Management and Board of Directors determine and approve the overall policies, procedures, and controls in material areas relating to the financial reporting process.

The Board of Directors has set up an audit committee to assist the Board of Directors and Executive Management in monitoring the financial reporting and the efficiency of internal control and risk management systems at Veloxis.

The maintenance of an efficient control environment and internal control and risk management systems is the responsibility of the Executive Management. As a tool to identify and manage the critical risks, Veloxis has implemented a control environment with internal systems designed to reduce identified risks to an acceptable level.

**Veloxis' position on the individual corporate governance recommendations is described in the following.**

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
<b>1. The role of the shareholders and their interaction with the management of the company</b>			
<i>1.1. Dialogue between the company and its shareholders</i>			
1.1.1. The Committee <b>recommends</b> that the central governing body, for example through investor relations activities, ensure an ongoing dialogue between the company and its shareholders in order that the central governing body knows the shareholders' attitude, interests and views in relation to the company and that investor relations material be made available to all investors on the company's website	X		Veloxis ensures through its shareholder communication, website, annual general meeting and investor meetings to have an effective communication between the shareholders and Veloxis, which includes use of information technology. Veloxis ensures that investor meetings are held and that the Board receives feedback from such meetings, and that Investor Relations and other shareholder reporting is available on the Veloxis website. Further, all investor presentations are accessible on the Veloxis website.
<i>1.2. Capital and share structure</i>			
1.2.1. The Committee <b>recommends</b> that the central governing body every year evaluate whether the company's capital and share structures continue to be in the interests of the shareholders and the company and account for this evaluation in the management commentary in the annual report and/or on the company's website.	X		The Board assesses regularly – and at least once a year – whether the capital and share structure are in the interest of the shareholders. The annual report contains an account of the Board's assessment.
<i>1.3. General Meeting</i>			
1.3.1. The Committee <b>recommends</b> that the supreme governing body and the executive board promote active ownership, including shareholders' attendance at general meetings.	X		The Annual General Meeting is convened with not less than three weeks' notice in line with the Danish Companies Act. The notice include descriptions of the complete proposals.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
1.3.2. The Committee <b>recommends</b> that the central governing body resolve or submit to the general meeting the question whether the general meeting shall be conducted by physical attendance or as a partly or entirely electronic general meeting.	X		The Board does not believe that electronic general meetings are likely to improve shareholder participation significantly.
1.3.3 The Committee <b>recommends</b> that proxies given to the supreme governing body allow shareholders to consider each individual item on the agenda.	X		Proxies include the position of the shareholders in relation to each item on the agenda.
1.3.4 The Committee <b>recommends</b> that all members of the supreme governing body and the executive board be present at the general meeting.	X		The entire Board and executive management is normally present at general meetings.
<b>1.4. Takeover bids</b>			
1.4.1 The Committee <b>recommends</b> that the central governing body, from the moment it obtains knowledge that a takeover bid will be submitted, do 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.	X		Veloxis intends to comply with this recommendation.
1.4.2. The Committee <b>recommends</b> that the central governing body give the shareholders the opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered.	X		Veloxis intends to comply with this recommendation.
<b>2. The role of stakeholders and their importance to the company and the company's corporate social responsibility</b>			

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
<b>2.1. The company's policy in relation to its stakeholders</b>			
2.1.1. The Committee <b>recommends</b> that the central governing body identify the company's key stakeholders and their main interests in relation to the company.	X		Veloxis has processes to ensure that the stakeholders' interests and roles are respected. The Board oversees the activities in this area.
2.1.2. The Committee <b>recommends</b> that the central governing body adopt a policy on the company's relationship with its stakeholders, including the investors, and ensure that the interests of the stakeholders are respected in accordance with the company's policy on such issues.	X		Veloxis have a communication policy and a code of conduct with guidelines for interaction with stakeholders.
<b>2.2. Corporate social responsibility</b>			
2.2.1. The Committee <b>recommends</b> that the central governing body adopt a policy on corporate social responsibility.	X		The Board has adopted specific policies within the areas that the Board considers to be of significant importance to Veloxis - such as working environment.
<b>3. Openness and transparency</b>			
<b>3.1. Disclosure of information to the market</b>			
3.1.1. The Committee <b>recommends</b> that the central governing body adopt a communication strategy.	X		Veloxis' policy is available on Veloxis' website <a href="http://www.veloxis.com">www.veloxis.com</a> . Further, the Board has adopted procedures for the timely disclosure of price sensitive information.
3.1.2. The Committee <b>recommends</b> that information from the company to the market be	X		Information is published in both Danish and English on Veloxis' website.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
published in both Danish and English.			
3.1.3. The Committee <b>recommends</b> that the company publish quarterly reports.	X		Veloxis publishes quarterly financial reports.
<b>4. The tasks and responsibilities of the supreme and the central governing bodies</b>			
<i>4.1. Overall tasks and responsibilities</i>			
4.1.1. The Committee <b>recommends</b> that the central governing body determine the company's overall strategy at least once every year with a view to sustaining value creation in the company.	X		The Board discusses and determines Veloxis' overall strategy, necessary qualifications and resources regularly and at least annually.
4.1.2. The Committee <b>recommends</b> that the supreme governing body at least once every year discuss and ensure that the necessary qualifications and financial resources are in place in order for the company to achieve its strategic goals.	X		The Board discusses and determines Veloxis' overall strategy, necessary qualifications and resources regularly and at least annually.
4.1.3. The Committee <b>recommends</b> that the supreme governing body at least once every year define its most important tasks related to the financial and managerial control of the company, including how to supervise the work of the executive board.	X		The Board regularly and at least once annually discusses and assesses its control and supervision procedures.
4.1.4. The Committee <b>recommends</b> that the supreme governing body annually discuss the company's activities to ensure diversity at management levels, including equal opportunities for both sexes, and that the supreme governing		X	The Board support equal opportunities for both sexes and annually discuss the company's activities to ensure diversity. Veloxis is a small company and do not intend to formalize objectives for the time being.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
body set measurable objectives and in the management commentary in the annual report and/or on the company's website give an account of both the objectives and the progress made in achieving the objective.			
<b>4.2. Procedures</b>			
4.2.1. The Committee <b>recommends</b> that the supreme governing body review its rules of procedure annually to ensure that they are adequate and always match the activities and needs of the company.	X		The Board reviews its rules of procedure at least annually.
4.2.2. The Committee <b>recommends</b> that the supreme governing body annually review and approve procedures for the executive board, including establish requirements for the executive board's timely, accurate and adequate reporting to the supreme governing body and for any other communication between the two governing bodies.	X		The Board regularly evaluates executive management's work and performance. Further, the Board annually reviews and approves the procedures for the executive management.
<b>4.3. The chairman and deputy chairman of the supreme governing body</b>			
4.3.1. The Committee <b>recommends</b> that a deputy chairman of the supreme governing body be appointed, who must be able to act in the chairman's absence and also act as an effective sounding board for the chairman.	X		The Board has elected a chairman and a deputy chairman.
4.3.2. The Committee <b>recommends</b> the preparation of a scope of work and task list specifying the tasks, duties and responsibilities of the chairman and deputy chairman.	X		The chairmanship's tasks, duties and responsibilities are described in the rules of procedure for the Board, which can be found on Veloxis' homepage.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
4.3.3. The Committee <b>recommends</b> that the chairman of the supreme governing body organize, convene and chair meetings to ensure efficiency in the body's work and to create the best possible working conditions for the members, individually and collectively.	X		The chairman is charged with the task of organizing, convening and chairing meetings.
4.3.4. The Committee <b>recommends</b> that, if the board of directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the board of directors will maintain responsibility for the overall management and control function. A reasonable distribution of duties must be ensured between the chairman, the deputy chairman, the other members of the board of directors and the executive board. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.	X		Board resolutions are passed if the chairman is asked to perform special tasks for the Company.
<b>5. Composition and organization of the supreme governing body</b>			
<i>5.1. Composition</i>			
5.1.1. The Committee <b>recommends</b> that the supreme governing body annually specify the skills	X		The Board assesses the competences that are required and the composition of the Board and proposals for nomination/replacement are

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
it must have to best perform its tasks and that the specification be posted on the website. Proposals for the nomination/replacement of members of the supreme governing body to be submitted to the general meeting should be prepared in the light hereof.			based on such assessment.
5.1.2. The Committee <b>recommends</b> that the supreme governing body ensure a formal, thorough and transparent process for selection and nomination of candidates to the supreme governing body. When assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender and age, etc.	X		A formal process for assessing and selecting candidates is carried out in connection with nominations/ replacements, to ensure needed competences. The Board takes the need for new talent and diversity into consideration when assessing its composition.
5.1.3. The Committee <b>recommends</b> that a description of the nominated candidates' qualifications, including information about other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, held by the candidates in both Danish and foreign companies as well as information on demanding organizational tasks should accompany the notice convening the general meeting when election of members to the supreme governing body is on the agenda.	X		The recommended information is provided in the notice convening the relevant general meeting.
5.1.4. The Committee <b>recommends</b> that every year, the annual report contain an account of the composition of the supreme governing body, including its diversity, and of any special skills	X		A profile of each Board member is included in the Annual Report.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
possessed by the individual members.			
<b>5.2. Training of members of the supreme governing body</b>			
5.2.1. The Committee <b>recommends</b> that new members joining the supreme governing body be given an introduction to the company.	X		Veloxis provides new board members with an introduction to the company.
5.2.2. The Committee <b>recommends</b> that the supreme governing body annually assess whether the skills and expertise of its members need to be updated.	X		The board reviews annually to ascertain whether competences or expertise need to be updated.
<b>5.3. Number of members of the supreme governing body</b>			
5.3.1. The Committee <b>recommends</b> that the supreme governing body have only so many members as to allow a constructive debate and an effective decision-making process enabling all members to play an active role.	X		The Board consists of six members which number is deemed sufficient to allow a constructive debate as well as an effective decision-making process. According to Veloxis' articles the board must consist of between 3 – 9 members.
5.3.2. The Committee <b>recommends</b> that in connection with the preparation for each year's general meeting, the supreme governing body consider whether the number of members is appropriate in relation to the requirements of the company.	X		The Board reviews the size regularly and has determined that the size of the Board is adequate. According to Veloxis' articles the board must consist of between 3 – 9 members.
<b>5.4. The independence of the supreme governing body</b>			
5.4.1. In order for the members of the supreme governing body to act independently of special interests, the Committee <b>recommends</b> that at least	X		The majority of the members of the Board are independent as defined by the Danish corporate governance rules.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
<p>half of the members elected by the general meeting be independent persons.</p> <p>The independent supreme governing body member may not:</p> <ul style="list-style-type: none"> <li>• be, or have been within the last five years, a member of the executive board/managerial staff of the company or an associated company,</li> <li>• have received significant additional remuneration from the company/group or an associated company apart from a fee for its services in the capacity as a member of the supreme governing body,</li> <li>• represent the interests of a controlling shareholder,</li> <li>• within the last year, have had a material business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body of companies with similar relations) with the company or an associated company,</li> <li>• be, or have been within the last three years, an employee or partner of the external audit firm,</li> <li>• hold cross-memberships of governing bodies,</li> <li>• have been a member of the supreme governing body for more than 12 years, or</li> <li>• have close family ties with persons that are not regarded as independent persons.</li> </ul>	X		
5.4.2. The Committee <b>recommends</b> that at least			Disclosure on independence is included in the annual report and on

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
once every year, the supreme governing body list the names of the members who are regarded as independent persons and also disclose whether new candidates for the supreme governing body are considered independent persons.			Veloxis' website.
<b>5.5. Members of the supreme governing body elected by the employees</b>			
5.5.1. The Committee <b>recommends</b> that the individual company explain, in the company's annual report or on its website, the system of employee-elected board members and the company's use hereof in companies where the employees have chosen to apply the provisions of the Companies Act on employee representation.	X		Veloxis has no employee-elected Board members.
<b>5.6. Meeting frequency</b>			
5.6.1. The Committee <b>recommends</b> that the supreme governing body meet at regular intervals according to a predetermined meeting and work schedule or when meetings are deemed necessary or appropriate as required by the company and that the number of meetings held be disclosed in the annual report.	X		The Board ordinarily meets minimum seven times a year. The Board ensures via a fixed annual calendar that it addresses the main tasks in a timely manner. The number of board meetings is published in the annual report.
<b>5.7. Expected time commitment and the number of other executive functions</b>			
5.7.1. The Committee <b>recommends</b> that each member of the supreme governing body assess the expected time commitment for each function in order that the member does not take on more functions than he/she can manage in a satisfactory	X		Each member assesses his/her ability to properly discharge his/her board duties in light of other commitments.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
way for the company.			
<p>5.7.2. The Committee <b>recommends</b> that the annual report contain the following information about the members of the supreme governing body:</p> <ul style="list-style-type: none"> <li>• the member's occupation,</li> <li>• the member's other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies as well as demanding organisational tasks, and</li> <li>• the number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year.</li> </ul>	X		The annual report contains the recommended information.
<b>5.8. Retirement age</b>			
<p>5.8.1. The Committee <b>recommends</b> that the company's articles of association fix a retirement age for members of the supreme governing body and that the annual report contain information on such retirement age as well as the age of each member of the board of directors.</p>	X		According to the articles of association members of the Board must retire at the first annual general meeting after having reached the age of 70. Veloxis states the age of its Board members in its annual reports and on Veloxis' website.
<b>5.9. Election period</b>			
<p>5.9.1. The Committee <b>recommends</b> that members of the supreme governing body elected by the general meeting be up for re-election every year at</p>	X		Shareholder-elected board members serve for a one-year term and can be re-elected by the annual general meeting. Balance between replacement and continuity will be ensured when nominating candidates.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
the annual general meeting.			
5.9.2. The Committee <b>recommends</b> that the annual report state when the individual member of the supreme governing body joined the body, whether the member was re-elected and when the current election period expires.	X		Veloxis states in its annual report, for each board member his/her term of office, whether he/she has been re-elected and the date on which he/she joined the Board.
<b>5.10. Board committees</b>			
5.10.1. The Committee <b>recommends</b> that the company publish the following information in the management commentary in its annual report or on the company's website: <ul style="list-style-type: none"> <li>• the terms of reference for the board committees,</li> <li>• 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 on which members are independent members and which members have special qualifications.</li> </ul>	X		The Company publishes the information in the annual report.
5.10.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent members.	X		The majority of the members of Veloxis' audit committee and compensation committee are independent.
5.10.3. The Committee <b>recommends</b> that the supreme governing body establish an actual <u>audit committee</u> .	X		The Board has established an audit committee with two members.
5.10.4. The Committee <b>recommends</b> that the	X		The chairman of the audit committee is not chairman of the Board. The

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
<p>following be taken into account in composing the audit committee:</p> <ul style="list-style-type: none"> <li>• the chairman of the supreme governing body should not be chairman of the audit committee, and</li> <li>• between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market.</li> </ul>			<p>members of Veloxis' audit committee are highly qualified professionals with extensive experience with financial, accounting and audit conditions relating to listed companies.</p>
<p>5.10.5. 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 supreme governing body 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.</li> </ul>	X		<p>The audit committee complies with this recommendation.</p>
<p>5.10.6. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually consider whether there is a need for an internal audit function, and if so,</li> <li>• formulate recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	X		<p>The audit committee complies with this recommendation.</p>

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
<p>•</p> <p>5.10.7. The Committee <b>recommends</b> that the supreme governing body establish a <u>nomination committee</u> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies.</li> <li>• annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes,</li> <li>• annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body,</li> <li>• consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions, and</li> <li>• identify and recommend to the supreme governing body candidates for the governing bodies.</li> </ul>		X	The chairmanship performs the tasks of a nomination committee.
5.10.8. The Committee <b>recommends</b> that the supreme governing body establish a <u>remuneration committee</u> with at least the following preparatory tasks:	X		The Board has established a compensation committee. The committee's purpose is to evaluate and make recommendations to the Board regarding remuneration paid to the members of management and the Board. The Board has approved a charter for the compensation committee setting out

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
<ul style="list-style-type: none"> <li>• make proposals, for the approval of the supreme governing body prior to approval at the general meeting, on the remuneration policy, including the overall principles of incentive pay schemes, for members of the supreme governing body and the executive board,</li> <li>• make proposals to the supreme governing body on remuneration for members of the supreme governing body and the executive board and ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the supreme governing body and the executive board receive from other companies in the group, and</li> <li>• oversee that the information in the annual report on the remuneration of the supreme governing body and the executive board is correct, true and sufficient.</li> </ul>			its responsibilities and powers generally in line with the recommendations.
5.10.9. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.	X		The compensation committee may itself chose its external advisers.
<b>5.11. Evaluation of the performance of the supreme governing body and the executive board</b>			
5.11.1. The Committee <b>recommends</b> that the supreme governing body undertake an annual evaluation of the performance and achievements of	X		The board will conduct a formal self-assessment from 2012. The chairman will be in charge of the procedure.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
the supreme governing body and of the individual members of the body.			
5.11.2. The Committee <b>recommends</b> that the chairman be in charge of the evaluation of the supreme governing body, that the outcome be discussed in the supreme governing body and that the details of the procedure of self-evaluation and the outcome be disclosed in the annual report.	X		The board will conduct a formal self-assessment from 2012. The chairman will be in charge of the procedure.
5.11.3. The Committee <b>recommends</b> that the supreme governing body at least once every year evaluate the work and performance of the executive board in accordance with pre-defined criteria.	X		The Board performs an annual management review in accordance with predefined criteria.
5.11.4. The Committee <b>recommends</b> that the executive board and the supreme governing body establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.	X		The Board has adopted a formal evaluation procedure to ensure systematic evaluation of the work of the Board and Management. Further, ongoing evaluation of the cooperation between Management and the Board is part of regular meetings held by the chairmanship of the Board and the CEO.
<b>6. Remuneration of members of the governing bodies</b>			
<i>6.1. Content and form of the remuneration policy</i>			
6.1.1. The Committee <b>recommends</b> that the supreme governing body adopt a remuneration policy applicable to the supreme governing body and the executive board.	X		The Board has adopted incentive guidelines, which are described and disclosed on the company's website.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
6.1.2. The Committee <b>recommends</b> that the remuneration policy and any changes to the policy be approved by the general meeting of the company.	X		Any changes to the incentive guidelines mentioned under 6.1.1. are subject to approval at the general meeting.
6.1.3. Committee <b>recommends</b> that the remuneration policy include a thorough description of the components of the remuneration for members of the supreme governing body and the executive board.	X		The incentive guidelines include such description.
6.1.4. The Committee <b>recommends</b> that the remuneration policy include: <ul style="list-style-type: none"> <li>• the reasons for choosing the individual components of the remuneration, and</li> <li>• a description of the criteria on which the balance between the individual components of the remuneration is based.</li> <li>•</li> </ul>	X		The incentive guidelines include such description.
6.1.5. 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 linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term,</li> <li>• there be clarity about performance criteria and measurability for award of variable components, and</li> <li>• there be criteria ensuring that vesting periods for variable components of</li> </ul>	X		The incentive programs are designed to promote both short-term and long-term behavior and they comply generally with the recommendations made.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
remuneration agreements are longer than one calendar year.			
6.1.6. The Committee <b>recommends</b> that remuneration of members of the supreme governing body do not include share or warrant programmes.		X	The remuneration of the Board consists of warrant schemes. Four members of the Board have been issued warrants conferring a right to subscribe shares in Veloxis. Veloxis believes that the ability to offer warrants as well as other forms of shares as incentive compensation is necessary to attract key people from within the industry (whether as Board members, managers or employees).
6.1.7. The Committee <b>recommends</b> that if members of the executive board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant. An explanation of the relation between the redemption price and the market price at the time of grant should be provided.	X		Warrants are granted annually but vest over a period of typically 36 months. Warrants typically expire after 7 years, and are always granted at least at market price on the day of grant.
6.1.8. The Committee <b>recommends</b> that, in exceptional cases, companies should be able to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be manifestly misstated.	X		In accordance with the recommendations, in exceptional cases, the company is entitled to reclaim in full or in part financial benefits received by the executive.
6.1.9. The Committee <b>recommends</b> that termination payments should not amount to more than two years' annual remuneration.	X		None of the members of the Board are entitled to termination payments. None of the members of the executive management are entitled to severance payments exceeding two years of annual remuneration.
<b>6.2. Disclosure of the remuneration policy</b>			
6.2.1. The Committee <b>recommends</b> that the remuneration policy be clear and easily	X		The Incentive Guidelines reflect the terms described in the recommendation and are available at the Company's webpage (and

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
understandable and that it be disclosed in the annual report and posted on the company's website.			reference thereto is made in the annual report).
6.2.2. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting.	X		The Incentive Guidelines are described by the chairman of the Board at the Annual General Meeting.
6.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the supreme governing body and the executive board by the company and other consolidated companies be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.		X	The total remuneration to each member of the Board and the executive management is not disclosed in the annual report. The total remuneration to the entire Board and the entire executive management, respectively, is disclosed together with an explanation of the components. It is the company's judgement that disclosure of the remuneration paid to each individual member of the Executive Management will not add additional value for shareholders and other stakeholders.
6.2.4. The Committee <b>recommends</b> that the details of any defined-benefit schemes offered to members of the supreme governing body or the executive board and the actuarial value of such schemes as well as changes during the year be included as part of the information on the total remuneration.	X		No such schemes are offered.
6.2.5. The Committee <b>recommends</b> that the most important aspects of retention and severance programmes be disclosed in the company's annual report.	X		Veloxis' retention programs are described in the annual report.
6.2.6. The Committee <b>recommends</b> that the proposal for remuneration of the supreme governing body for the current financial year be	X		The remuneration of the Board is presented for approval to the annual general meeting.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
approved by the shareholders at the general meeting.			
<b>7. Financial reporting</b>			
<i>7.1. Other relevant information</i>			
7.1.1. The Committee <b>recommends</b> that the annual report and other financial reports be supplemented by additional financial and non-financial information, if deemed necessary or relevant in relation to the information needs of the recipients.	X		Veloxis' annual report includes both financial and non-financial information as deemed necessary or relevant.
<i>7.2. Going concern assumption</i>			
7.2.1. The Committee <b>recommends</b> that, upon consideration and approval of the annual report, the supreme governing body decide whether the business is a going concern, including supporting assumptions or qualifications where necessary.	X		The Board carefully considers going concern as an issue in connection with approval of the annual report.
<b>8. Risk management and internal control</b>			
<i>8.1. Identification of risks</i>			
8.1.1. The Committee <b>recommends</b> that the central governing body at least once every year identify the most important business risks associated with the realization of the company's strategy and overall goals as well as the risks associated with financial reporting.	X		Once a year, a strategic plan with identification and evaluation of strategic risk factors is prepared by management. The Board reviews and approves the strategic plan.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
8.1.2. The Committee <b>recommends</b> that the executive board currently report to the supreme governing body on the development within the most important areas of risk and compliance with adopted policies, frameworks etc. in order to enable the supreme governing body to track the development and make the necessary decisions.	X		Major risks are identified and regularly reported to management and the Board. Management is responsible for the risk management process, including risk identification, assessment of likelihood and potential impact and initiation of mitigating actions.
<b>8.2. Whistleblowing</b>			
8.2.1. The Committee <b>recommends</b> that the supreme governing body decide whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrongdoing.	X		Veloxis is in the process of establishing a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.
<b>8.3. Openness about risk management</b>			
8.3.1. The Committee <b>recommends</b> that the management commentary in the annual report include information about the company's management of business risks.	X		The annual report includes information on Veloxis' risk management activities.
<b>9. Audit</b>			
<b>9.1. Contact to auditor</b>			
9.1.1. The Committee <b>recommends</b> that the supreme governing body maintain a regular dialogue and exchange of information with the auditor.	X		A regular contact is maintained. The audit committee monitors the audit process on an on-going basis. The result of the audit is discussed by the Board among other things on the basis of the long-form audit report.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason:
9.1.2. The Committee <b>recommends</b> that the auditor agreement and auditors' fee be agreed between the supreme governing body and the auditor on the basis of a recommendation from the audit committee.	X		The auditor agreement and the auditor's fee are agreed between the auditor and the Board.
9.1.3. The Committee <b>recommends</b> that the supreme governing body and the audit committee meet with the auditor at least once every year without the executive board present. This also applies to the internal auditor, if any.	X		Veloxis complies with this recommendation.
<b>9.2. Internal audit</b>			
9.2.1. The Committee <b>recommends</b> that the supreme governing body, on the basis of a recommendation from the audit committee, once every year decide whether to establish an internal audit for support and control of the company's internal control and risk management systems and state the reasons for its decision in the annual report.	X		The Audit Committee reviews and assesses on behalf of the Board once a year Veloxis' internal control systems and need of internal audit.