

## Corporate Governance in FirstFarms A/S

- in accordance to The Danish Financial Statements Act § 107b

In accordance with "Recommendations for good Corporate Governance", composed in 2005 and latest revised and updated in May 2013 by the Committee for good Corporate Governance, a listed company shall explain how it complies with the recommendations based on the "comply-or-explain" principle. In FirstFarms this means that the company explains how the recommendations are interpreted and complied with, and explains if the recommendations are deviated. The recommendations supplement the regulation, in relation to company- and exchange law, for Danish companies, who have shares to trade on a regulated market.

Each annual report from FirstFarms contains a section on "Corporate Governance", in which the company briefly explains its deviations from the recommendations. Additionally, this Corporate Governance in FirstFarms A/S is always available at [www.firstfarms.com](http://www.firstfarms.com).

"Recommendations for good Corporate Governance" are divided into 5 main sections:

1. The company's communication and interaction with the company's investors and other interested parties
2. The roles and responsibilities of the Board of Directors
3. Composition and organisation of the Board of Directors
4. Remuneration of the Board of Directors and the Management
5. Presentation of accounts, risk management and audit

Corporate Governance – or company management – is the company's overall framework and guidelines, which determines its goals and the Management's tasks and business opportunities. FirstFarms generally complies with the Committee's recommendations and with this review of the specific recommendations the company is seeking to enable shareholders and other interested parties to gain an insight into how Corporate Governance is implemented in FirstFarms.

### **Re 1) The company's communication and interaction with the company's investors and other interested parties**

FirstFarms is endeavouring to establish frameworks, which encourage shareholders into a dialogue with the company's Management and mutual dialogue between the shareholders. Connected with this, the company has placed particular focus on IT, since this eases communication and at the same time produces significant cost savings. Consequently, the company has opted electronic communication as its vehicle in its Articles of Association and all information to the shareholders is therefore sent using this medium.

FirstFarms uses the annual general meeting (AGM) as a tool to enable shareholders to have their say and their participation is encouraged to increase active ownership. The company is therefore seeking to ensure that all members of the Board of Directors and the Management are present at the AGM. The company is continuously looking for ways to enable shareholders to view the AGM as webcast transmission, and likewise a recording of this may subsequently be available on the company's website. The company has so far used physical attendance at the AGM and has until now refrained from using partly or completely electronically AGM, as FirstFarms would like to meet its shareholders on the AGM. The AGM may be supplemented with general discussion of issues relevant to the company's activities and of interest to the company's investors, e.g. agricultural investments in Eastern Europe. The company website has a special section about past and forthcoming AGMs in FirstFarms together with associated material.

Notice to convene the annual general meeting in the company occurs according to the Articles of Association by submission of e-mail to every registered shareholder who has informed FirstFarms about his/hers e-mail address and also by publication at the company's website [www.firstfarms.com](http://www.firstfarms.com). In connection to holding the annual general meeting, power of attorney can be given to the Board of Directors or others in the form of a marked power of attorney, where the shareholders have the possibility to make a decision of every item on the agenda.

The company has adopted an IR-policy, which seeks to ensure a constructive dialogue with shareholders and other interested parties through its investor relation work. The company therefore participates in events involving unions, organisations and other groups, where presentations from FirstFarms can contribute to increasing

knowledge of the company and its business areas. In addition to participating in investor meetings, the company has given its shareholders the opportunity to participate in shareholder trips, where the investors are given the opportunity to see the company's activities and to obtain information about the various business branches of the management in the respective farms. It is FirstFarms' opinion that these user-paid shareholder trips can provide a good impression of the company's activities, in the same way as it can contribute to a dialogue between the company and the shareholders and among shareholders. Information about forthcoming trips is published on the website [www.firstfarms.com](http://www.firstfarms.com) and via direct information to shareholders registered by name with the company using their email address in the company's register of shareholders.

In case of proposal of takeover offer, the Board of Directors will refrain from undertaking dispositions, which actually screen the shareholders from deciding about the takeover attempt and approve it on a general meeting. This will be in force from the time the Board of Directors learns about the proposal of the takeover offer, as the shareholders shall have an actual possibility to decide whether they wish to surrender their shares in FirstFarms on the proposed terms.

The company practises openness in respect of its activities and plans, for which reason the company has adopted an information and communication policy, including formulation of an Investor Relations policy. Amongst other things the company has decided to publish its company announcements in Danish and English, and to make these available on the company's website as well as to release them into the public domain within Denmark and the EU. FirstFarms publishes company announcements at least four times annually, by virtue of the fact that quarterly statements are prepared. The company also holds own investor meetings or participates in such when relevant.

FirstFarms is a SmallCap company, traded on the Nordic Exchange in Copenhagen (OMX). FirstFarms has an Investor Relations Manager, and a special section on the website containing information pertinent to investors. Under the section "Investor Relations" visitors can view developments in share prices, see previous company announcements and a financial calendar, as well as being able to contact the Investor Relations department etc. The company uses electronic communication as an active tool to keep shareholders, potential investors and other interested parties continually informed of the company's activities and new events. Consequently, on the company's website, [www.firstfarms.com](http://www.firstfarms.com), visitors can subscribe to a news service, whereby all information sent from the company can be received by e-mail. If shareholders are already registered using their e-mail address, subscription to the news service is unnecessary as these shareholders will automatically receive information from the company. In addition to the option to receive information from the company, all interested parties can read the Chairman's report from the AGM on the website.

FirstFarms meets the high standard for the accounting category of activities undertaken by the company and also follows good accounting practice. It is the company's opinion that the requirement for transparency in the company's accounting material is met by virtue of the accounting standards in IFRS, for which reason other international accounting standards are not used in connection with the annual report. However, by way of supplementary information, the company has in the annual report chosen to publish information of a non-financial nature, since it provides information about i.e. the company's policy in respect of environmental factors and land purchases on the company's farms. FirstFarms' agricultural companies shall comply with all environmental requirements for production and operation together with requirements for animal welfare applicable in the respective countries in which the agricultural companies are located.

## **Re 2) The role and responsibilities of the Board of Directors**

The Board of Directors' roles and composition are described in the company's order of business, which also stipulate the division of responsibilities, risk management etc. The order of business is reviewed once a year by the Board of Directors in order to ensure that it remains an effective and operational tool for use in resolving its assignments and thus the order of business is continuously adjusted to the company's needs. The order of business only applies to the Board of Directors, whereas guidelines have been established for the work, reporting etc. for the Management.

The Board of Directors continually evaluates the company's measures with regard to ensuring that the activities remain within the frameworks of the primary objectives, investment strategies and -criteria which are set following thorough consideration by the Board of Directors at least once annually. Meetings in the Board of Directors are held at least once quarterly. The Board of Directors is responsible for appointment of a qualified management team, and continually, and at least once a year, evaluates this work in accordance with the guidelines set. The Board of Directors shall be an active sparring partner for the Management in respect of strategic and oper-

ational measures; similarly, the Board of Directors is a supervising body in respect of the Management and the company. On a monthly basis the Board of Directors receives information from the Management in respect of events in the company with a focus on those themes which may have an effect on the company's financial situation in both the long and short term.

To ensure the value creation in the company, the Board of Directors evaluates continually, and at least once a year, together with the Management how the overall strategy contributes to the purpose. At least once a year, the Board of Directors also investigates how the necessary competences and financial resources are safeguarded to enable FirstFarms to achieve its strategic goals.

The Board of Directors continually, and at least once a year, assesses whether the company's capital and share structure is in the interest of the shareholders and the company, and a report is issued annually in consideration thereof. FirstFarms has no limitations on ownership of shares, or the number of shares that the individual shareholder may possess.

The Chairman of the Board of Directors has a number of tasks, which are regulated in the company's order of business. The Chairman must among other things act as coordinator between the Management and the Board of Directors and to ensure that the work of the Board of Directors is concentrated on subjects that are productive to the company. The task as Chairman shall be handled by a person with relevant leadership experience and shall take an active role in the meetings in the Board of Directors. It is also the task of the Chairman to ensure that meetings are held on a regular basis between the Management and the Chairman to clarify the practicalities of the day-to-day operations and follow up on agreed plans. The Chairman shall also ensure that all expertise on the Board of Directors is used most appropriately, and that the Board of Director's composition reflects the need to ensure a positive business development in FirstFarms. No Vice Chairman has been appointed to the Board of Directors, but the company's Articles of Association allow for the selection of a Vice Chairman, if the need for this appears.

Members of the Board of Directors must not participate in the handling of specific tasks where the competence to act of the member can be questioned.

FirstFarms emphasises that the Board of Directors all in all has a considerable experience and diversity within the company's business area – operation of agriculture in selected Central- and Eastern European countries. The company has decided not to have specific goals for diversity in the Board of Directors, as it in the company's assessment is not suitable for the operation and development of the company. Today, the company has no women on the Board of Directors. It is the company's goal over the next 4 years that at least one board member must be a woman. Members of the Board of Directors may not undertake tasks or through investments be involved in companies which directly or indirectly compete with FirstFarms' activities. Once a year in connection with the annual evaluation of the function and competence of the Board of Directors, it is evaluated whether the individual member's other activities have a character or an extent that makes the general competence to act, in correlation to the member's function as member of the Board of Directors, fulfilled.

If FirstFarms enters into a financial contract with closely related parties or companies controlled by or under the influence of member of the Board of Directors, such contractual relationships shall always be based on the company's normal business practice. This also applies if members of the Board of Directors in exceptional cases carry out remunerated extra tasks for FirstFarms.

FirstFarms has an open policy in respect of the company's policies towards all parties. The company's Corporate Governance, which is updated annually, is together with other information available on the website; similarly, FirstFarms' Management has adopted an information and communication policy, which ensures that the company safeguards its relationship with the company's stakeholders. Furthermore, FirstFarms' position regarding Corporate Social Responsibility (CSR), animal welfare and environmental policies, etc. is also available on the company's website [www.firstfarms.com](http://www.firstfarms.com).

The company's policy regarding Corporate Social Responsibility is also to be open minded in respect to the local community and partners in the countries in which the company invests in agriculture. FirstFarms enters into a constructive dialogue with the surrounding community in the area in which the investments are made. The company also has versions of the website in the local language. This contains mainly general information about the company's strategy, business area and local activities as well as contact details in relation to the company locally and centrally. A full version of the website can be found in Danish and English versions.

FirstFarms uses its website to pass on information about the company's philosophy, values, aims, attitude to animal welfare, etc.

### **Re 3) Composition and organisation of the Board of Directors**

The Board of Directors in FirstFarms is composed with a view to ensuring that it can perform its duties in the best possible way and ensure effective safeguarding of strategic objects as well as being a constructive sparring partner for the Management. The composition of the Board of Directors reflects expertise in the agricultural area, specific insight into business areas in Eastern Europe, general expertise in the running of listed companies and a high level of financial and accounting knowledge. The Board of Directors thus reflects diversity and when taking new members in it is considered how the Board of Directors is composed, i.e. as regards to professional competence, gender and age. The most important issue at the composition is the qualifications and capacities that can create value for FirstFarms. The Board of Directors meets on a regular basis according to fixed dates, but also whenever the need arises. The number of meetings held is informed in the company's annual report.

The company's Board of Directors can consist of between three and six persons, and currently it consists of five members. The company has opted to have a relatively small Board of Directors, since this provides the opportunity for a constructive mutual dialogue between the members themselves and between the Board members and the Management in FirstFarms in respect of the company's activities. It also fulfils the wish for an effective decision-making process, in which all have the opportunity for active participation. In preparation for the annual general meeting, the Board of Directors considers whether the number of members is appropriate in proportion to the company's needs, just like the competences and descriptions of the candidates on election on the annual general meeting is published to the participants, so the competences of the candidates can be evaluated. All members of the Board of Directors are elected for one year terms, and are elected at the annual general meeting. The age limit for members is set at 70 years. FirstFarms has no employee elected members in the Board of Directors, as the company, due to its size, is not included in the rules about employee representative in the Board of Directors.

The Board of Directors is not issued with options, warrants or other incentive programmes in FirstFarms. Some members of the Board of Directors are, however, shareholders in the company.

The Board of Directors has not set up special committees, since the relatively limited complexity of the company's activities combined with the Board of Director's composition and size means that all members participate actively in all tasks that fall under the scope of its activities. There has therefore not been set up i.e. accounting committee, nomination- or remuneration committees etc., but such committees can be set up on ad hoc basis in specific cases, if it is considered necessary.

The company has established an internal evaluation procedure of the Board of Directors, ensuring that the composition of the Board of Directors always meets the strategic duties and requirements facing FirstFarms and where the members' contributions and results are evaluated. The Chairman of the Board of Directors holds an annual discourse with every member where the effort is evaluated. After the individually discourses, an annual dialogue and evaluation in the complete Board of Directors is made. Evaluation of the work in the Board of Directors' is not publicly available, but forms the basis for the Board of Directors' approach to the general meeting in respect of any changes in the composition.

The Board of Directors evaluates the Management's work based on criteria which are intended to ensure that the shareholders can rely on the fact that FirstFarms' Management safeguards the shareholders interests in the best possible way. This involves among other things evaluation of:

- The company's investments in relation to the adopted strategy
- Achievement of expected operating results
- Financial management and reporting
- Risk management
- Staff and recruitment policy
- Cooperation with the Board of Directors

If a managing director is member of the Board of Directors, he will not participate in the evaluation of the Management, as he in this correlation is assumed to be incompetent to act. The cooperation between the Board of

Directors and the Management is evaluated at least once annually by the Chairman of the Board of Directors and the CEO. The evaluation is put before the assembled Board of Directors for consideration and discussion. The level of cooperation in the Board of Directors is continually evaluated by the Chairman.

Members of the Board of Directors in FirstFarms A/S hold other positions, and their expertise is wide-ranging. In composing the Board of Directors, focus is placed on the members holding the necessary expertise, and expertise which is considered to be consistent with their assignment as a member of the company's Board of Directors. The number of other management positions is, therefore, not crucial to the company.

The following overview is also evident in FirstFarms' annual reports.

**FirstFarms' Board of Directors is composed as follows:**

**Henrik Hougaard** (Chairman)

*Born 1958, took office 2004*

Director functions	Management functions
SKIOLD A/S (Chairman)	Thoraso ApS
Graintec A/S (Chairman)	SKIOLD Holding ApS
Engsko A/S (Chairman)	Skaarupgaard Skov ApS
United Milling Systems A/S (Chairman)	Henrik Hougaard Invest A/S
Scandinavian Farms Invest A/S (Chairman)	
Danagri-3S Ltd. (Chairman)	
DK-TEC A/S (Chairman)	
Fortin Madrejon A/S (Chairman)	
Thoraso ApS	
Skovselskabet Rumænien A/S	

Henrik Hougaard owns directly and indirectly 11.76 % of the shares in FirstFarms A/S.

**Lars Thomassen**

*Born 1953, took office 2006*

Board functions	Management functions
Birger Christensen A/S	Purple Star ApS
	White Star Development, PL
	Black Star ApS
	Parking Poland ApS

Lars Thomassen holds 24,668 shares in FirstFarms A/S.

**Jens Bolding Jensen**

*Born 1963, took office 2013*

<b>Board functions</b>	<b>Management functions</b>
HP Schou A/S HP Schou Holding A/S Jørgen Schou Holding A/S Schou USA Ltd. Tolbodgade Finans A/S Schou Ejendomme A/S Schou Invest Kolding A/S Royal Oak K/S Schou Golf K/S Schou Holding A/S Schou Absolute Horses A/S Schou I/S	BPI A/S

Jens Bolding Jensen holds 5,161 shares in FirstFarms A/S.

**John Christian Aasted**

*Born 1961, took office 2013*

<b>Board functions</b>	<b>Management functions</b>
Sv. Aage Christiansen A/S <i>(Chairman)</i> Grintec A/S System Cleaners A/S Nørresundby Bank A/S SKIOLD A/S Gissselfeld Kloster	Aasted Consult – Aalborg

**Bent Juul Jensen**

*Born 1953, took office 2013*

Bent Juul Jensen holds 3,600 shares in FirstFarms A/S.

One of the company's members of the Board of Directors, Henrik Hougaard, is co-founder of FirstFarms A/S and not independent according to the recommendations, as he in 2006 became large shareholder in the company. The four other members of the Board of Directors are considered as independent according to the recommendations, for which reason the majority of the members in the Board of Directors are independent of private interests. Furthermore, the company informs in the annual report whether the members are considered independent according to the recommendations.

**Re 4) Remuneration of the Board of Directors and the Management**

Members of the Board of Directors in FirstFarms have no incentive schemes of any kind and the members' salaries take the form of a fixed, annual fee that shall be competitive to attract and retain competent members. The Chairman receives annually DKK 120,000, whilst the other members each receive DKK 80,000 as an annual fee.

The previous warrant programmes for the company's Management are expired. Managerial staff in the subsidiary companies may be included in warrant programmes, where this is considered appropriate. An actual remuneration policy has not been adopted in the company, as the Board of Directors makes decisions in respect of the issuing of warrants in each individual case, and this is used as part of an attractive staff policy in the company. As there has not been adopted any remuneration policy, this cannot be approved on the general meeting,

but the Chairman of the Board of Directors explains the company's remuneration principles on the annual general meeting. Furthermore, the company informs about the remuneration in its annual reports.

The Management shall receive a fair salary in proportion to assignments and responsibilities. In the financial year 2013 the Management in FirstFarms A/S received a fee of DKK 1,302,000.

No special resignation schemes have been adopted for the Management.

#### **Re 5) Presentation of accounts, risk management and audit**

FirstFarms' management review, which every year is a part of the annual report, contains a statement of the conditions the review deals with, including a description of the development in the company's activities and future prospect. It lies with every single member of the Board of Directors and the Management to ensure that the annual report and other financial reporting is composed in accordance with current legislation, standards, requirements, regulations etc. and the reporting are supplemented with further financial and non-financial information to the extent it is considered necessary and relevant.

When handling the annual report, the Board of Directors decides whether the presentation of the accounts shall be done from the "going-concern"-condition, i.e. on the assumption of continued operation of the company. Making this decision, emphasis is on the company's actual situation, financial condition and future prospect.

FirstFarms has established a series of investment criteria, which apply to investments within the company's business areas:

- FirstFarms invests in agriculture and land in Eastern European EU countries.
- FirstFarms invests in both worn-down as well as modern agricultural companies when it is evaluated, that FirstFarms can run an effective primary production in the company taken over.
- FirstFarms is primary producer and may therefore run different kinds of primary production, including milk-, cattle- and pig production.
- FirstFarms acquires and operates land in Eastern Europe and may in that connection establish both vegetable and animal production and both.
- FirstFarms carries out investments alone or in cooperation with local partners or other financial partners.
- FirstFarms diversifies its agricultural portfolio on different product areas in different countries to spread the risk in the company.
- FirstFarms is a primary producer but in some cases it may be necessary, due to competitive or sales reasons to include the next link in the supply chain.

The Management continually reports to the Board of Directors in respect of status and changes in the company's risks, together with any action plans with a view to identifying the total risk in the company. Once annually the Board of Directors reviews the total policy for risk assessment in FirstFarms, and considers any need for changes. The Board of Directors approves the total insurance strategy of the company with an overview of current insurances annually after presentation from the Management.

The company's financial risk is, among other things, a function of risk in commercial activities, including exchange ratios on purchase and sale of products and services. FirstFarms endeavours to identify the risks in price fluctuations on the purchase side via entry into long-term contracts with suppliers. Correspondingly, the company will, on the sales side, continually assess the need for entry into agreements with a view to identifying risk. The agreements remain subject to the Board of Director's control.

Political and legislative risks in the countries in which FirstFarms has invested or plans to invest are continuously monitored and changes reported to the Board of Directors. The political risk also encompasses any changes within the guidelines of the EU, including changes in the EU's price subsidy system.

The interest risk is continuously assessed by the company's Management, at the same time as focus is placed on the exchange rate risk in the company. Compared to the company's current capital structure, the interest risk is relatively limited; in the same way, the exchange rate risk is limited to the current business activities in such a way that the majority of primary purchases and sales are undertaken in local currency. The exchange rate risk is primarily linked to the estimation of equity in the company's subsidiary companies. The exchange

rate risk is worked out regularly and reported to the Board of Directors as part of the company's risk management.

In respect of new investments, the Board of Directors will continuously assess financing options for the individual investments and make up the financing with consideration of the Group's collective financial situation. An assessment is made in each individual case over whether coverage for interest risk, exchange rate transactions etc. shall be taken out. In addition to the risks mentioned, the realisation of FirstFarms' overall objectives is associated with the risks connected with the climatic conditions. The company performs evaluation on an ongoing basis, e.g. the need for investment in watering capacity with a view to reducing the risk in respect of fluctuations in rainfall.

The company is an internationally working group where great focus is on efficiency. There is especially great focus on an effective risk management and internal monitoring systems. On this basis the company has for the moment not established a "whistleblower" plan.

In its annual report, FirstFarms every year explains the company's risk management and measures taken with regard to reducing the company's risk.

One of the most important tasks of the Board of Directors is to ensure an independent, competent and careful audit of the company, and the Board of Directors and the Management annually nominate an auditor for election at the annual general meeting. The auditor is chosen based on a critical evaluation of independence and expertise. Both audit agreement and fee are agreed and approved by the Board of Directors. At least once a year, the Board of Directors reviews the internal monitoring systems in FirstFarms and the Management's handling thereof. Also included in the considerations is whether the audit can contribute to further clarity and transparency in the company's accounting issues. The Board of Directors reviews the results of the audit and the annual report with the auditor. Similarly, the chosen accounting policies is discussed with a view to a critical evaluation of the need for changes.

As the auditing of the company is a considerable part of the work in the Board of Directors, they have a regular and continuous dialogue and interchange of information with the audit. Once a year the Board of Directors evaluates, whether an internal audit in the company shall be established, to support and control of the internal monitoring- and risk management systems.

FirstFarms' auditor is:

KPMG Statsautoriseret Revisionspartnerselskab  
Værkmestergade 25  
Postbox 330  
DK-8100 Århus C